



**PROVINCE OF NEWFOUNDLAND  
AND LABRADOR**

**PUBLIC ACCOUNTS  
VOLUME I**

**CONSOLIDATED SUMMARY  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 MARCH 2007**

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**Province of Newfoundland and Labrador**

**Public Accounts**

**Volume I**

**Consolidated Summary  
Financial Statements**

**For The Year Ended  
31 March 2007**

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## Table of Contents

	Page No.
INTRODUCTION	1
UNDERSTANDING THE FINANCIAL HEALTH OF THE PROVINCE OF NEWFOUNDLAND AND LABRADOR:	
Message from the Minister of Finance and President of Treasury Board	3
Financial Reports	5
Financial Discussion and Analysis Report	6
Glossary of Terms	6
Consolidated Accrual Result	7
Cash Flow Analysis	9
Highlights - Financial Position	10
Financial Position	13
Highlights - Financial Operations	14
Key Indicators	19
Financial Performance	24
STATEMENT OF RESPONSIBILITY	27
AUDITOR'S REPORT	29
STATEMENTS:	
Consolidated Statement of Financial Position	30
Consolidated Statement of Change in Net Debt	31
Consolidated Statement of Operations	32
Consolidated Statement of Change in Accumulated Deficit	33
Consolidated Statement of Cash Flows	34
Notes to the Consolidated Financial Statements	35
SCHEDULES:	
Receivables - Schedule 1	49
Loans, Advances and Investments - Schedule 2	50
Equity in Government Business Enterprises - Schedule 3	52
Net Income of Government Business Enterprises - Schedule 4	53
Payables, Accrued and Other Liabilities - Schedule 5	54
Borrowings - Schedule 6	55
Guaranteed Debt - Schedule 7	58
Trust Accounts - Schedule 8	59
Tangible Capital Assets - Schedule 9	60
Revenue by Source - Schedule 10	62
Expenses by Department - Schedule 11	63
Expenses by Object - Schedule 12	64
Reconciliation of Budgetary Contribution (Requirement) to Consolidated Accrual Results - Schedule 13	65
Government Reporting Entity - Schedule 14	67

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## INTRODUCTION

**Volume I** of the Public Accounts presents the consolidated summary financial statements of the Province of Newfoundland and Labrador. These statements are preceded by a report which discusses and analyzes the information contained within the summary financial statements. The report, entitled **Understanding the Financial Health of the Province of Newfoundland and Labrador**, provides a narrative review of the financial performance of the Province along with illustrations of key figures and relationships. This financial statement discussion and analysis, in conjunction with the consolidated summary financial statements, provides additional information for users of the Provinces' summary statements.

The consolidated summary financial statements combine the financial statements of the Consolidated Revenue Fund with the financial statements of various Crown Corporations, Boards and Authorities, as approved by Treasury Board, which are controlled by the Government of Newfoundland and Labrador. These organizations are accountable for the administration of their financial affairs and resources either to a Minister of the Government or directly to the Legislature.

These statements are prepared on the accrual basis of accounting in accordance with the Public Sector Accounting Board (PSAB) standards of the Canadian Institute of Chartered Accountants (CICA), and as outlined in the significant accounting policies of the Province. They are prepared by the Comptroller General of Finance and are audited by the Auditor General. Budget figures, where available, are provided on several Statements for comparison purposes.

The Public Accounts for the year ended 31 March 2007 also includes one other volume, Volume II - Consolidated Revenue Fund Financial Statements. It presents the financial position of the Fund and the results of its activities.

The Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund has been previously released as a separate report for 2006-07. This report is available online at the address noted below. Another report containing a reproduction of the available financial statements of the Crown Corporations, Boards and Authorities will be released as a separate report.

The Public Accounts of the Province are tabled in the House of Assembly in accordance with Section 60 of the *Financial Administration Act*.

### Internet Address

The Public Accounts are available on the Internet at:  
<http://www.fin.gov.nl.ca/ComptrollerGeneral/publications.htm>

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## **UNDERSTANDING THE FINANCIAL HEALTH OF THE PROVINCE OF NEWFOUNDLAND AND LABRADOR**

As Minister of Finance and President of Treasury Board, I present to you a report on the financial health of the province. In the following report, the financial health of the province is examined through discussion and analysis of the Province's financial position and results of operations for the 2006-07 fiscal year.

The 2006-07 fiscal year has proved to be another positive year toward achieving our goal of becoming a province that is self-reliant and prosperous. For the second year in a row, the province has reported a consolidated accrual surplus. This year, the Province has recorded a surplus of \$154.1 million. Sustained momentum in growth and prosperity has allowed the Province to build upon the prior year's successes and to allow for significant improvements in its fiscal position.

Payments to reduce the unfunded pension liability in fiscal year 2005-06 have contributed to a decline in the Province's debt expense by \$170.1 million in 2006-07. These savings have further enabled the Province to invest more heavily in economic and social development while at the same time, enhancing infrastructure. As at 31 March 2007, net debt as a percentage of Gross Domestic Product decreased by 9.3% from the previous year, an indication that government's rate of economic growth was far greater than the rate of growth in debt.

The Province's net debt position has marginally improved by \$125.7 million from 31 March 2006 to 31 March 2007. The total net debt of the Province continues to be very high at \$11.6 billion in spite of improvements in annual operating results. The debt position must be carefully managed and will continue to be a concern for many years to come.

To have success beyond the 2006-07 fiscal year, Government must continue to strategically invest in the Province's vast resources and strive to maintain a high level of responsible decision making in relation to its finances. This, in conjunction with a strong economy, is paving the way for a stronger Newfoundland and Labrador.

**THOMAS W. MARSHALL, Q.C.  
MINISTER OF FINANCE AND  
PRESIDENT OF TREASURY BOARD**

19 November 2007

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## **FINANCIAL REPORTS**

Information on the financial picture of the Province can be obtained from the Public Accounts and the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund.

The Public Accounts consists of two volumes. These include:

*Volume I: Consolidated Summary Financial Statements*

- These are the combined audited financial statements of the Consolidated Revenue Fund (all departments) and government organizations (including Health and School Boards) which are controlled by and therefore accountable to Government.
- They present the consolidated financial position of the Province on an accrual basis, in accordance with the accounting standards established for governments by the Canadian Institute of Chartered Accountants (CICA).
- The consolidated summary (accrual) surplus for the year ended 31 March 2007 as presented in Volume I is \$154.1 million; net debt is \$11.6 billion; and accumulated deficit is \$9.3 billion.

*Volume II: Consolidated Revenue Fund (CRF) Financial Statements*

- These are the audited financial statements of the Consolidated Revenue Fund (all departments) on an accrual basis.
- The CRF (accrual) surplus for the year ended 31 March 2007 as presented in Volume II is \$44.7 million; net debt is \$11.4 billion; and accumulated deficit is \$10.3 billion.

The Auditor General issued an unqualified audit opinion on both volumes of the 2006-07 Public Accounts.

The Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund shows the actual overall budgetary contribution (requirement) of the Consolidated Revenue Fund as at 31 March 2007.

- This report is prepared using the modified cash basis of accounting and is not subject to an audit opinion.
- The budgetary contribution of \$140.9 million for the year ended 31 March 2007 is comprised of a current account financial contribution of \$361.3 million offset by a capital account financial requirement of \$220.4 million.

The Public Accounts and the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund can be found on the Government's website at:

[www.fin.gov.nl.ca/ComptrollerGeneral/Publications.htm](http://www.fin.gov.nl.ca/ComptrollerGeneral/Publications.htm)

Copies of all volumes of the Public Accounts, the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund, and the Financial Statements of Crown Corporations, Boards and Authorities can be obtained at the Queen's Printer, Confederation Building.

## **FINANCIAL DISCUSSION AND ANALYSIS REPORT**

The inclusion of this report, a financial discussion and analysis of the Public Accounts, is a practice recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The Public Sector Accounting Board sets the accounting standards for Canadian senior governments.

Information provided in this report will focus on the consolidated summary financial statements of the Province. Throughout this report, any reference to a particular year means the fiscal year ended in that year. For example, reference to 2007 means the fiscal year ended 31 March 2007.

## **GLOSSARY OF TERMS**

To assist in understanding the discussion and analysis to follow in this report, definitions of the various terms used are provided below:

<i>Accrual Basis:</i>	A method of accounting whereby revenues are recorded when earned and expenses are recorded when liabilities are incurred.
<i>Accumulated Deficit:</i>	Liabilities less total assets. This equals the net accumulation of all annual surpluses and deficits experienced by the Province.
<i>Annual Surplus/ (Deficit):</i>	The excess of annual revenues (expenses) over annual expenses (revenues).
<i>Budgetary Contribution/ (Requirement):</i>	The difference between revenues and expenditure cash flows of the Consolidated Revenue Fund generated as a result of the operations of government departments during the year.
<i>Cash Basis:</i>	A method of accounting whereby revenues are recorded when received and expenditures are recorded when paid.
<i>Deferred Revenue:</i>	Represents funding received in advance of revenue recognition criteria being met.
<i>Financial Assets:</i>	Assets (such as cash, receivables and investments) to be used to reduce existing or future liabilities.
<i>GDP:</i>	Gross Domestic Product (at market prices) of the Province.
<i>Interest Cost:</i>	Interest on the Province's debt (e.g. borrowings, unfunded pension liability), as well as other debt related expenses.
<i>Net Borrowings:</i>	Total borrowings (debentures, treasury bills, etc.) less sinking funds. Also referred to as provincial debt in this report.
<i>Net Debt:</i>	Liabilities less financial assets.
<i>Non-Financial Assets:</i>	Assets consumed in the delivery of government services, but not intended to reduce existing or future liabilities. Non-financial assets are primarily comprised of tangible capital assets.

<i>Tangible Capital Assets:</i>	Non-financial assets which are held for use in the production or supply of goods and services and have useful economic lives extending beyond an accounting period. Examples include buildings, roads, infrastructure, marine vessels and heavy equipment and machinery.
<i>Unfunded Pension Liability:</i>	The total unpaid pension benefits earned by existing/former employees and retirees less the value of assets set aside to fund the benefits.

## **CONSOLIDATED ACCRUAL RESULT**

### **Compared to Previous Year**

The difference between the annual surplus of \$154.1 million for 2007 and the annual surplus of \$199.3 million for 2006 is \$45.2 million. This decline can be attributed to a decrease in total revenue of \$34.4 million combined with an increase in total expenses of \$10.8 million.

The decline in total revenue of \$34.4 million from 2006 to 2007 can be attributed to decreases experienced in the following revenue sources:

- \$137.4 million in Government of Canada revenue mainly related to lower equalization payments being received in 2007;
- \$109.5 million in offshore royalties caused primarily by an extended maintenance shutdown of the Terra Nova Oilfield;
- \$28.7 million in investment revenue which can primarily be attributed to lower cash balances held during the year which resulted in less interest revenue;
- \$6.8 million in fees and fines; and
- \$26.2 million in other revenues.

These decreases in revenues were somewhat offset by the following increases:

- \$271.1 million in taxation revenue which can be mainly attributed to improvements in personal income which led to higher personal income tax, increases in mining taxes and royalties because of stronger metal prices, higher consumer expenditure which resulted in increased sales tax revenues, as well as higher revenue from offshore related corporate income tax; and
- \$3.1 million in net income of government business enterprises.

The increase in total expense of \$10.8 million from 2006 to 2007 can be partially attributed to increases experienced in the following types of expenses:

- \$123.8 million in salaries and employee benefits primarily due to increases in health related entities, education related entities and the CRF; and
- \$67.9 million growth in operating costs which mainly relate to increased purchases of supplies and purchased services.

These increases in expenses were somewhat offset by the following decreases:

- \$170.1 million in debt expenses due primarily to reduced interest costs associated with the unfunded pension liability (\$1.9 billion special contribution to this liability in 2006 is the most significant contributor to this decrease); and
- \$10.8 million related to other miscellaneous expenses.

Additional variance analysis on the changes in revenues and expenses between the 2006 and 2007 fiscal years is included in later sections of this report.

### **Compared to Original Budget (Accrual)**

The budgeted annual surplus of \$6.2 million as per the 2006-07 Estimates and the annual surplus of \$154.1 million differs by \$147.9 million. This difference can be attributed to a decrease in total revenue of \$141.6 million combined with a decrease in total expenses of \$289.5 million.

The difference in total revenue of \$141.6 million from the original budget can be partially attributed to decreases experienced in the following revenue sources:

- \$280.1 million in offshore royalties which can be primarily attributed to reduced production at the Terra Nova Oilfield due to a longer than anticipated maintenance shutdown;
- \$34.8 million in Government of Canada revenue primarily due to less revenue was received for disaster recoveries than originally anticipated; and
- \$48.1 million in miscellaneous sources of revenue.

These decreases in revenues were somewhat offset by the following increases:

- \$181.8 million in taxation revenue mainly due to larger revenues relating to corporate income taxes, personal income tax and sales tax (these increases were primarily the result of stronger than expected consumer expenditure growth for the current and prior year as well as improvements to economic forecasts which resulted in upward revisions to revenues in both the current and prior years); and
- \$39.6 million in investment revenue primarily due to interest earnings from investment of borrowing proceeds that were not immediately paid into the Public Service Pension Plan as well as increased earnings on various trusts established by the Federal Government.

The difference in total expense of \$289.5 million from original budget can be attributed to decreases experienced in the following types of expenses:

- \$132.1 million in some social sector initiatives, including education and health programs;
- \$49.5 million in delays in implementing various projects and programs (of this difference, \$30.6 million relates to social sector departments including such programs as the Provincial Drug Program and the Dental Program, \$11.4 million relates to resource sector departments which include such areas as advanced technology and economic development and \$7.5 million relates to general government sector departments which includes such areas as repairs and maintenance of existing facilities and maintenance of ferry vessels);

- \$47.4 million in municipal debt servicing and municipal infrastructure funding;
- \$18.4 million related to expenses of Business Investment Corporation and Newfoundland and Labrador Housing Corporation;
- \$17.2 million in debt expenses due to a lower borrowing requirement as well as lower interest rates;
- \$10.7 million in various initiatives such as income assistance (less than anticipated caseload) and repairs and maintenance; and
- \$14.2 million in other miscellaneous expenses.

### **CASH FLOW ANALYSIS**

The Province records its transactions on an accrual basis in accordance with generally accepted accounting principles, the timing of which may vary from when actual cash is paid or received. In 2007, the Province's overall net cash inflows differed by \$331.0 million from the previous year, as detailed in the following chart:

<b>Cash Flow by Category</b>	<b>2007</b>	<b>2006</b>	<b>Difference</b>
	<i>(000's)</i>	<i>(000's)</i>	<i>(000's)</i>
Operating	239,223	2,615,827	(2,376,604)
Capital	(201,048)	(171,723)	(29,325)
Financing	(298,981)	(2,326,177)	2,027,196
Investing	27,268	(20,452)	47,720
Net Inflows (Outflows) of Cash	<u>(233,538)</u>	<u>97,475</u>	<u>(331,013)</u>

The difference in the operating category net cash flows is primarily due to the receipt of the cash advance payment of the Atlantic Accord (2005) in 2006 and higher payments for purchases, salaries and other miscellaneous items.

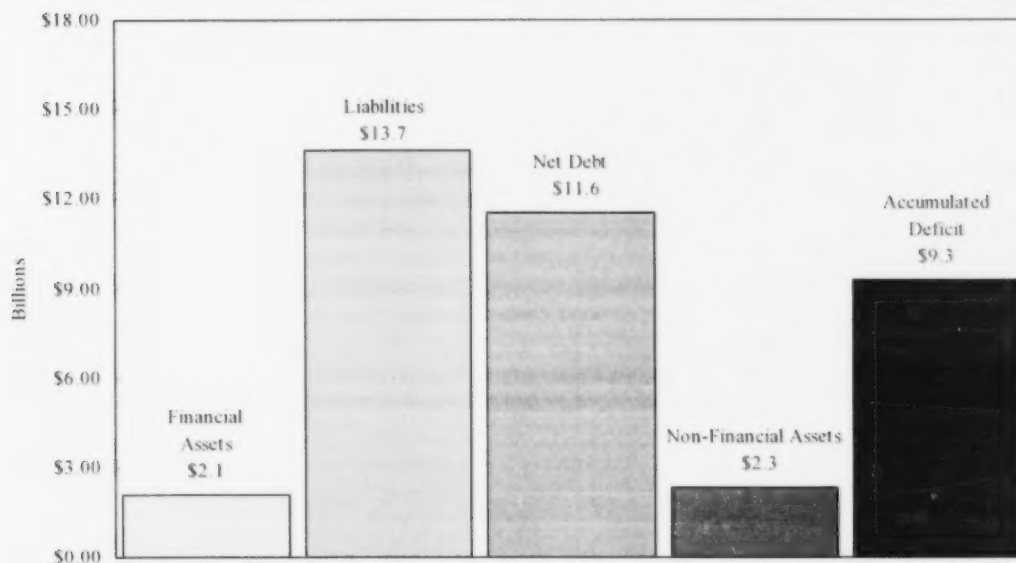
Cash outflows for capital were \$29.3 million higher in 2007, primarily due to greater acquisitions of tangible capital assets.

Cash outflows related to financing were higher for 2006 primarily due to a one time \$1.9 billion special contribution to the unfunded pension liability.

The \$47.7 million difference in the investing category is primarily the result of holding less investments in 2007 compared to 2006.

## HIGHLIGHTS - FINANCIAL POSITION

The Province's financial position as at 31 March 2007 is presented in the following chart. As noted in the chart, net debt of \$11.6 billion consisted of \$13.7 billion in liabilities less \$2.1 billion in financial assets. Accumulated deficit of \$9.3 billion consisted of \$11.6 billion in Net Debt less \$2.3 billion in non-financial assets.



### Accumulated Deficit

The accumulated deficit for the fiscal year ended 31 March 2007 decreased from the previous years adjusted accumulated deficit by the \$154.1 million surplus for the year.

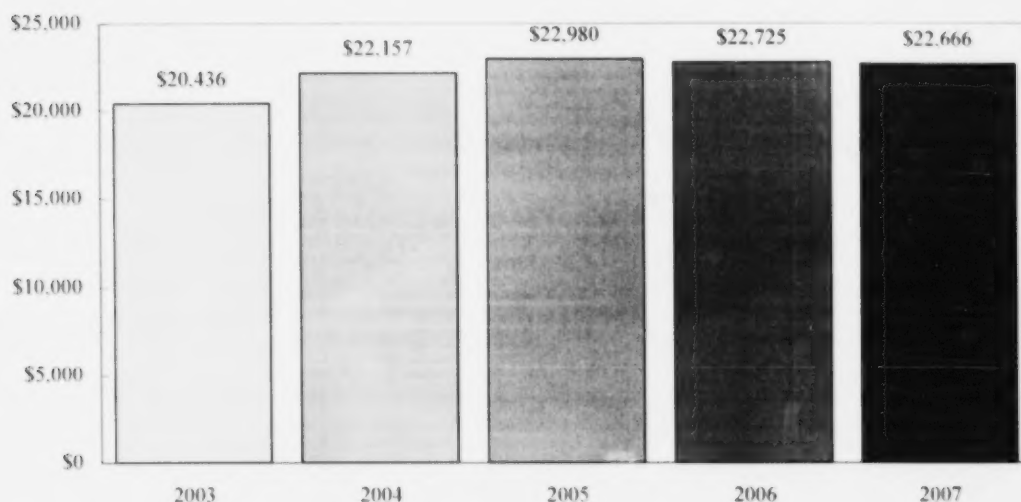
### Net Debt and Net Borrowings

For the fiscal year ended 31 March 2007, net debt totaled \$11.6 billion which included net borrowings of \$6.6 billion. The net debt for the fiscal year ended 31 March 2007 decreased from the previous year by \$125.7 million and the net borrowings increased by \$117.6 million.

#### a) Net Debt per Capita

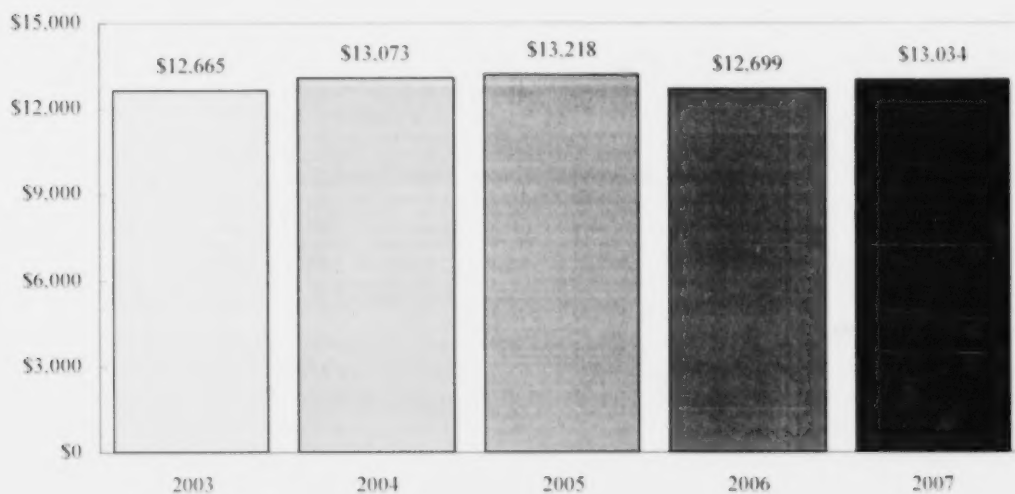
Net debt per capita indicates the average amount of net debt owing by each citizen of the Province and is calculated by dividing the net debt of the Province by the Province's population. Each citizen's share of the net debt declined in both 2006 and 2007. It has fallen from \$22,725 in 2006 to \$22,666 in 2007 as presented in the chart that follows. This is a decrease of \$59 per person as a result of a reduction in the Province's net debt as previously noted and a slight decrease in population by 4,204.





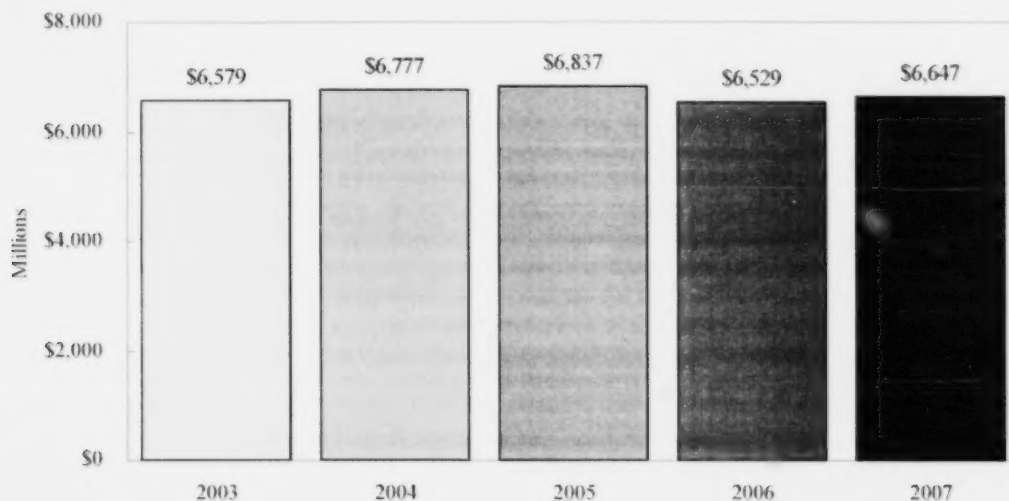
**b) Net Borrowings per Capita**

Net borrowings per capita indicates the average amount of provincial debt owing by each citizen of the Province and is calculated by dividing the net borrowings of the Province by the population of the Province. In 2007 it increased from 2006 by \$335 per person, which can be attributed to an increase in net borrowings as well as a slight decline in population. The net borrowings per capita are presented in the following chart.



### c) Net Borrowings - 5 Year Comparison

Net borrowings of the Province increased in 2007 by \$117.6 million. Borrowings of the Consolidated Revenue Fund represented 90.5% of the total borrowings during 2007, a 1.1% increase over 89.4% in 2006. The net borrowings are shown in the following chart.

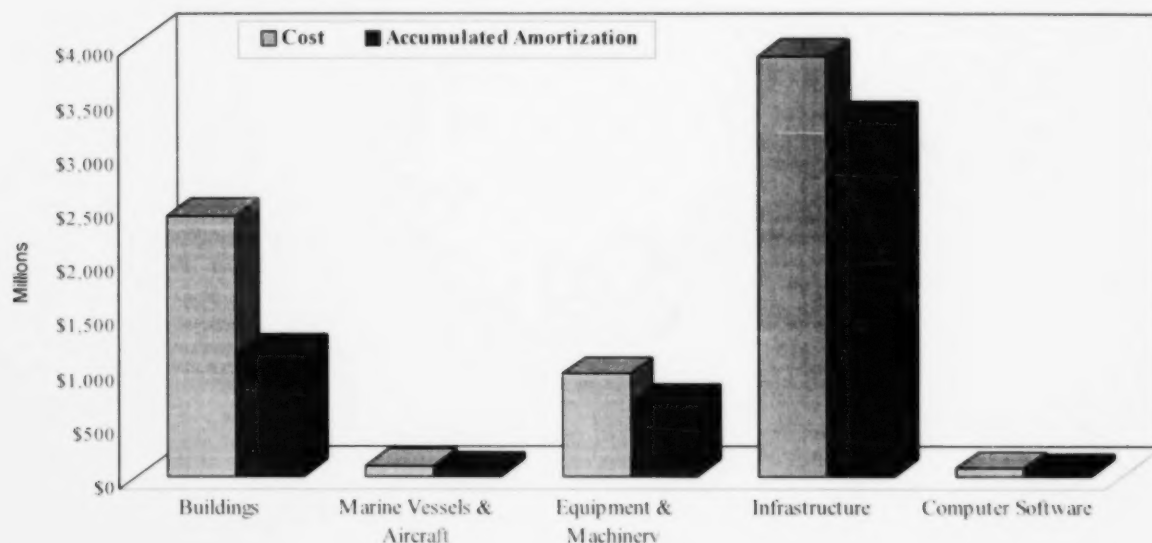


### Non-Financial Assets

In 2007, non-financial assets of \$2.3 billion related primarily to tangible capital assets. The net book value of tangible capital assets increased by \$15.5 million from 2006. Analysis of the information in the consolidated summary financial statements follows:

- The increase in net book value of tangible capital assets was the result of an increase in acquisitions that more than offset the increase in accumulated amortization.
- Accumulated amortization of tangible capital assets represents 70.1% of the costs of tangible capital assets. 47.7% of buildings and 85.0% of all infrastructure assets' original cost have been amortized.
- Buildings and infrastructure (including roads, bridges, airstrips and marine facilities) represented 82.1% of the total net book value of tangible capital assets as at 31 March 2007.
- 59.7% of computer software assets' original cost have been amortized compared to 67.6% in 2006. This decrease can be attributed to increased spending on computer software in 2007.
- 72.6% of equipment and machinery's original cost and 77.5% of marine vessels and aircraft's original cost have been amortized compared to 72.8% and 73.2% in 2006 respectively.

The following chart shows the tangible capital asset cost and accumulated amortization by category at 31 March 2007.



## FINANCIAL POSITION

Net debt and accumulated deficit are comprised of the following components:

(\$ billions)	2007	2006	2005	2004	2003
Unfunded Pension Liability	1.93	2.20	3.93	3.75	3.56
Borrowings (net of sinking funds)	6.65	6.53	6.84	6.78	6.58
Group Health and Life Insurance Retirement Benefits	1.40	1.27	1.16	1.07	0.99
Other Liabilities	3.68	3.80	1.81	1.29	1.00
Less: Total Financial Assets	(2.10)	(2.12)	(1.85)	(1.40)	(1.51)
<b>Net Debt</b>	<b>11.56</b>	<b>11.68</b>	<b>11.89</b>	<b>11.49</b>	<b>10.62</b>
Less: Tangible Capital Assets	(2.24)	(2.23)	(2.08)	(2.13)	(2.13)
Less: Other Non-financial Assets	(0.08)	(0.06)	(0.06)	(0.05)	(0.05)
<b>Accumulated Deficit</b>	<b>9.24</b>	<b>9.39</b>	<b>9.75</b>	<b>9.31</b>	<b>8.44</b>

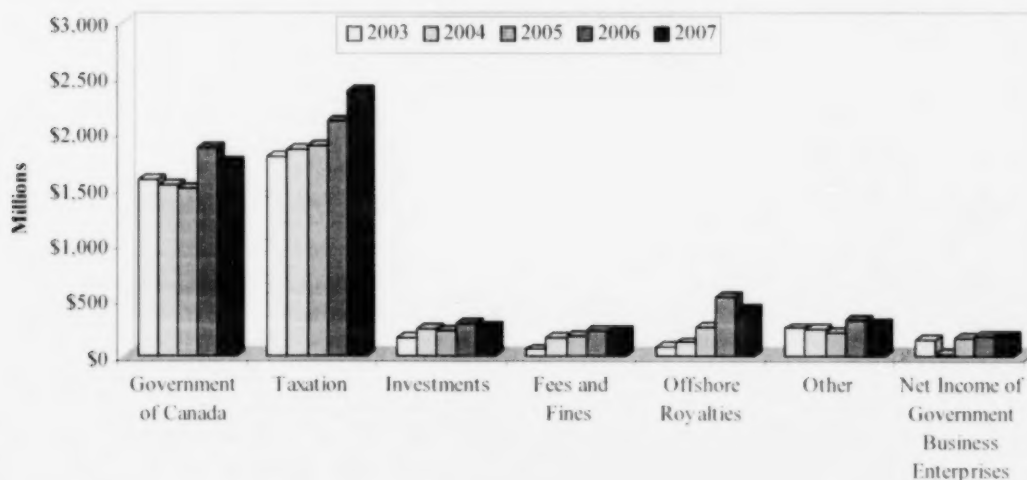
As seen in the previous table, net debt has declined since 2005. Although net debt is the lowest it's been since 2004, the Province still has significant debt.

## HIGHLIGHTS - FINANCIAL OPERATIONS

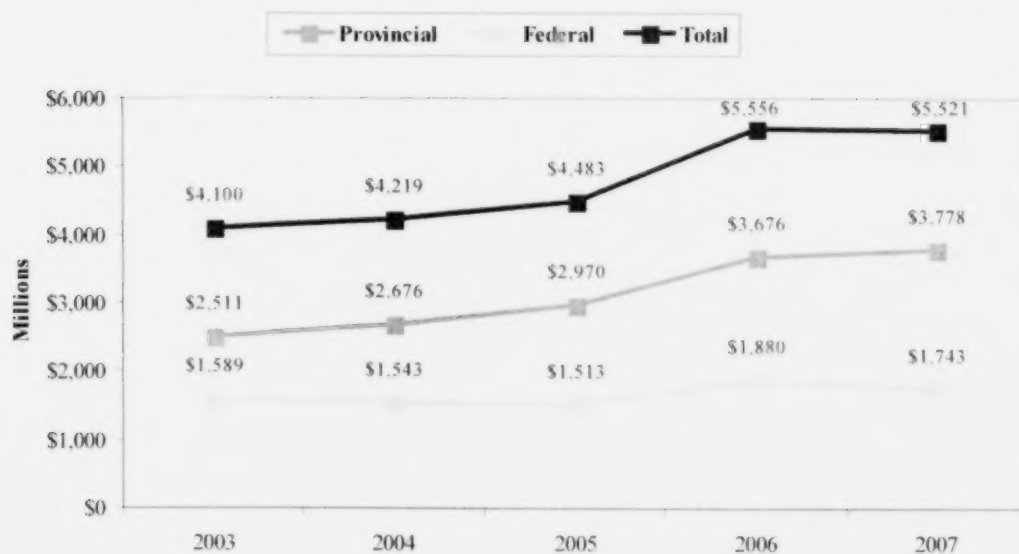
### Revenues

For the fiscal year ended 31 March 2007, total revenue amounted to \$5.5 billion. Of this amount, 31.6% came from Federal Government sources, while 68.4% was derived from provincial revenue sources. Details on these sources of revenue, including five-year historical comparisons, are provided in the following charts and graphs.

#### a) Revenues by Source - 5 Year Comparison



#### b) Total Revenues - 5 Year Comparison



From an analysis of the above charts and the information presented in the consolidated summary financial statements, the following observations can be made:

- Total revenues which had been rising over the last four years, declined slightly in 2007. Annual revenues have increased by over \$1.4 billion since 2003.
- Total federal revenues have declined in 2007 by \$137.4 million after a significant increase in 2006.
- Total provincial revenues have climbed over the last five years, ranging from \$2.5 billion in 2003 to \$3.8 billion in 2007, including an increase of \$103.0 million from 2006 to 2007.
- Taxation remains the most significant source of revenue overall, growing steadily over the past five years to a high of \$2.4 billion in 2007, which was \$271.1 million higher than 2006.

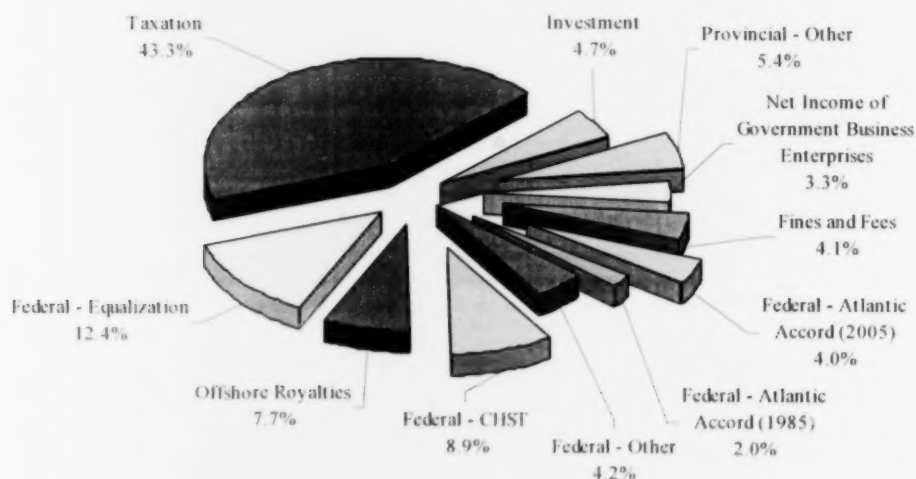
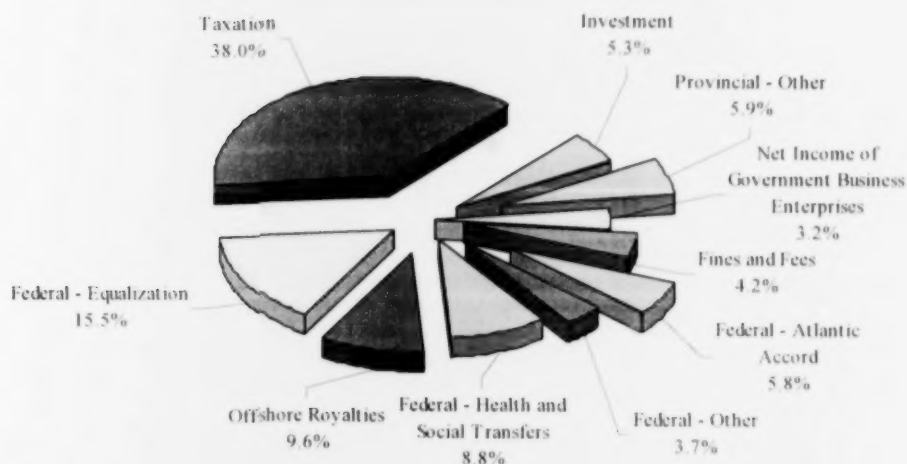
### ***c) Revenues by Source***

The most significant changes in revenues by source between 2006 and 2007 arise from taxation, Government of Canada, and offshore royalties.

- A sizable increase in taxation revenues of \$271.1 million can be attributed to improvements in personal income, continued economic growth and increases in mining taxes and royalties due to stronger metal prices.
- Government of Canada revenues were \$137.4 million lower in 2007 primarily as a result of a decrease in equalization payments. Federal estimates showed improvements in the Province's per capita fiscal capacity compared to that of the standard provinces, resulting in lower equalization payments to the Province in 2007. This decrease was somewhat offset by an increase in cost-shared federal revenues mainly related to gas tax initiatives and Bill C-48 Trusts.
- Offshore royalties were \$109.5 million less in 2007 than in 2006 which can largely be attributed to a maintenance shutdown at the Terra Nova Oilfield.
- Investment revenues declined for 2007 by \$28.7 million primarily due to a decrease in earnings on short term investments. Earnings on short term investments for 2006 were significantly higher as a result of the \$2.0 billion Atlantic Accord (2005) advance payment received during the year.
- Fees and fines, income from government business enterprises and miscellaneous sources of revenue combined for a decrease of \$29.9 million during the year.

The following charts depict revenues by source for the current and preceding years for comparative purposes.

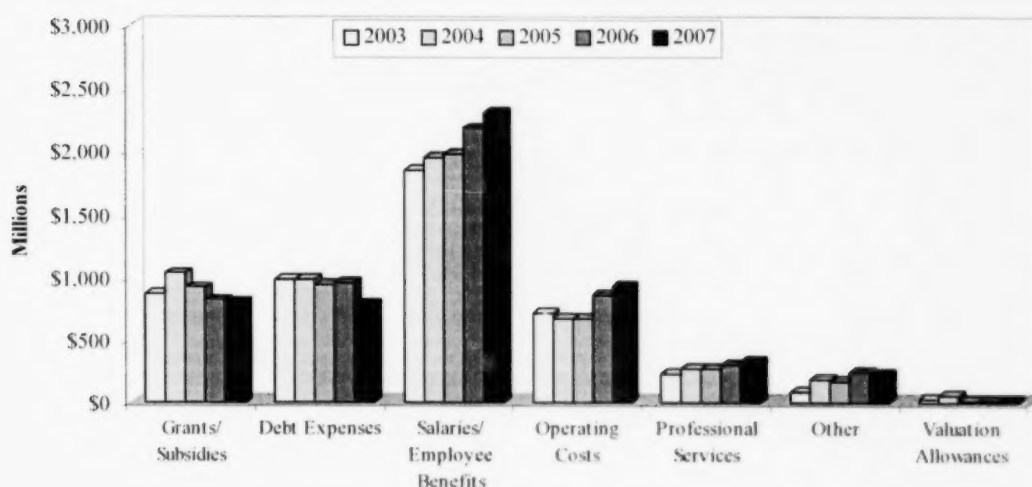
- Equalization payments remain the most significant source of federal revenue representing 12.4% of all revenues (down from 15.5% in 2006) and 39.4% of federal revenues in 2007.
- Personal income tax is the most significant source of revenue in 2007, representing 16.0% of all revenues (up from 14.6% in 2006) and 23.4% of all provincial revenues.
- As stated earlier, taxation is the most significant source of revenue overall. Taxation as a percentage of all revenues increased to 43.3% in 2007 from 38.1% in 2006.

**Revenue by Source - 2007****Revenue by Source - 2006**

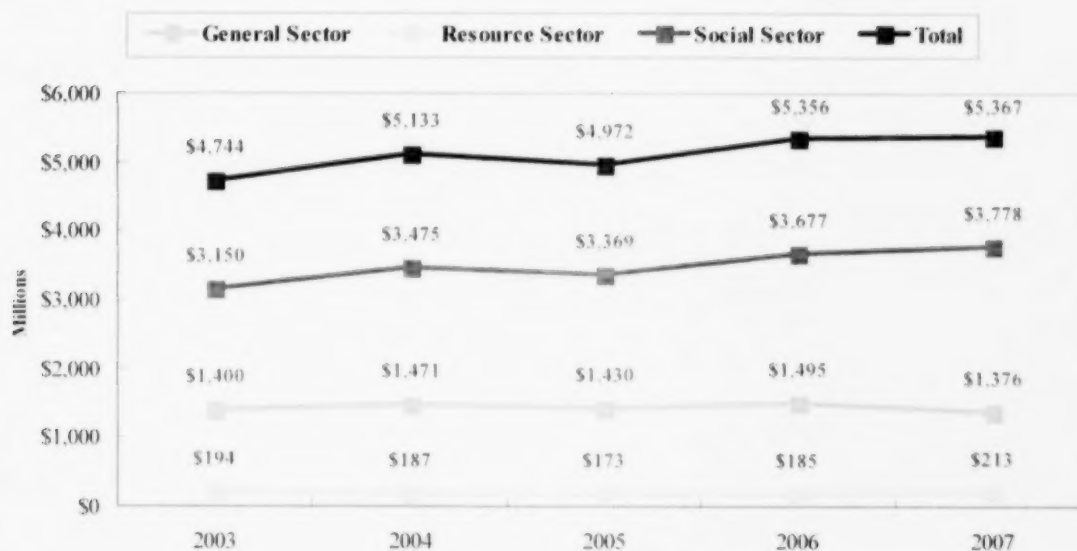
## Expenses

For 2007, total expenses amounted to \$5.4 billion. The following charts and discussion analyze the nature of these expenses by category and sector. In the discussion on expense by category, it should be noted that the 'Other' category represents minor capital property acquisitions, as well as amortization and loss on sale relating to tangible capital assets.

### a) Expenses by Major Category - 5 Year Comparison



### b) Expenses by Sector - 5 Year Comparison



From an analysis of the information presented in the consolidated summary financial statements and the previous charts, the following observations can be made:

- Total expenses have grown by \$623.5 million overall during the past five years, of which \$10.8 million relates to the change from 2006 to 2007.

- Salaries and employee benefits remain the most significant expense, rising steadily over the past five years from \$1.9 billion in 2003 to \$2.3 billion in 2007.
- Together salaries and employee benefits and operating expenses represent 60.2% of total expenses for 2007 compared to 56.7% in 2006.
- Expenses for the social sector were \$3.8 billion in 2007, accounting for 70.4% of the total expenses for the year. The increase of \$101.3 million from 2006 represents a 2.75% growth.

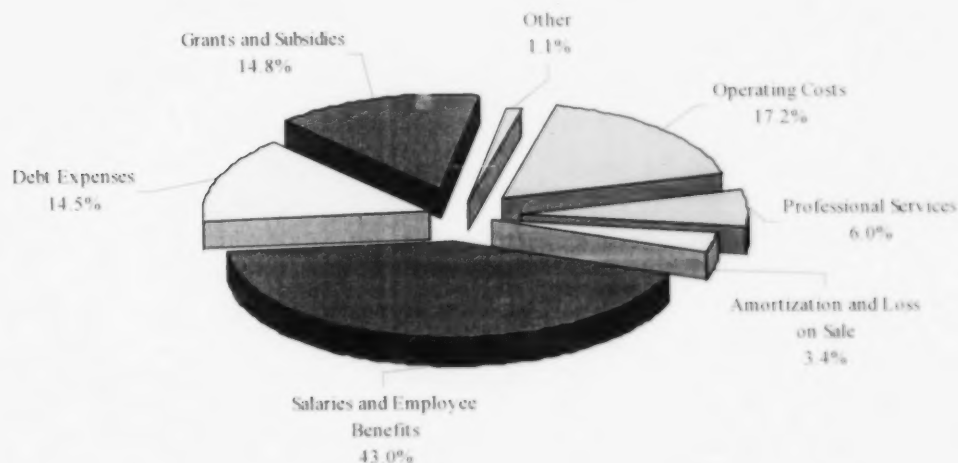
### **c) Expenses by Category**

The most significant changes in expenses by category between 2006 and 2007 relate to debt expenses, salaries and employee benefits and operating costs.

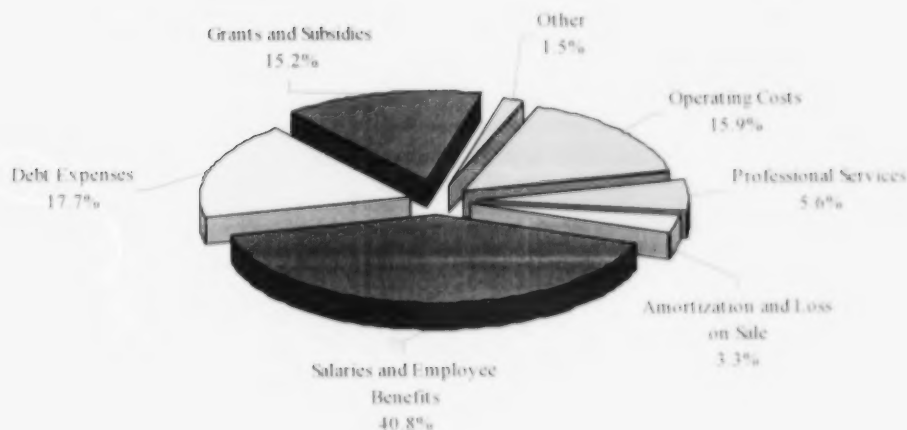
- Debt expenses were reduced in 2007 by \$170.1 million. The primary source of this reduction is the \$1.9 billion special contribution to the pension liability in 2006 which resulted in less interest expense on the unfunded pension liability.
- Salaries and employee benefits were \$123.8 million greater in 2007 than in 2006. \$56.8 million is attributable to health care entities, \$31.2 million is attributable to education related entities, \$29.5 million is related to the Consolidated Revenue Fund and the remaining \$6.3 million is due to the other organizations in the Government Reporting Entity. These increases are mainly due to general salary increases, additional hires during the year as well as increases in retirement costs due to plan amendments for the group health and life insurance plan.
- Operating costs were \$67.9 million higher in 2007 than in 2006. Of this amount, \$33.2 million is due to increases in the Consolidated Revenue Fund's expenses for purchased services and supplies. Increases in purchased services can primarily be attributed to an expanded road construction program in 2007 while the increase in supplies is mainly due to increased costs of various supplies such as fuel and winter maintenance materials such as salt and sand. Increased costs of supplies and purchased services for health care entities contributed to an overall increase in operating costs by \$21.1 million. The increase in supplies can be mainly attributed to volume increases in certain areas, new drugs added, new medical surgical supplies, as well as price increases. Increases in purchased services are primarily the result of health care entities' expanding role in the delivery of various health programs. The remaining increase of \$13.6 million can be attributed to the remaining entities of the Government Reporting Entity.



Expenses by Major Category - 2007



Expenses by Major Category - 2006



## KEY INDICATORS

- Key indicators included in this document provide a complete picture of the Province's financial condition at 31 March 2007.
- The common key indicators included herein were primarily identified in a research report issued by the Canadian Institute of Chartered Accountants entitled *Indicators of Government Financial Condition*. These indicators, which are used in assessing a government's financial health in the context of the overall economic and financial environment, can be summarized under the headings of *sustainability*, *flexibility*, and *vulnerability*.

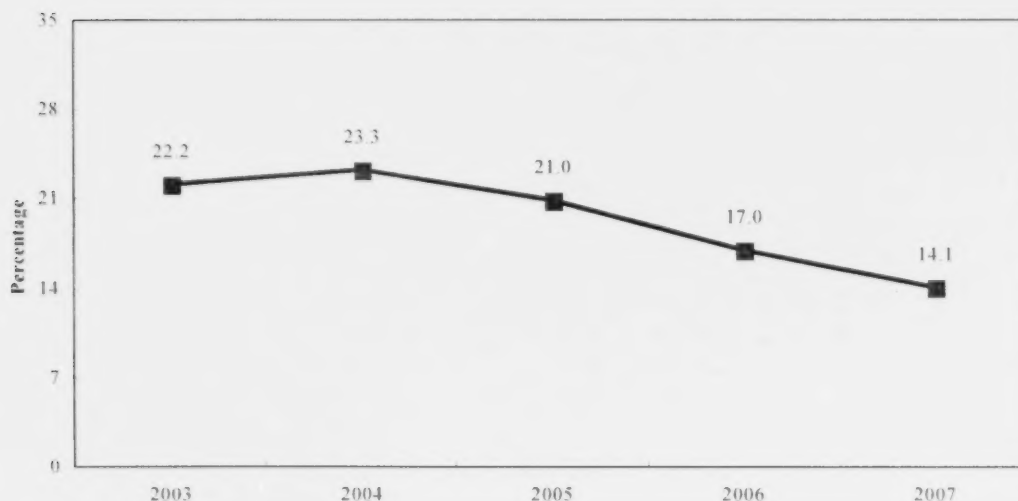
- While there are no established public sector benchmarks for these indicators, one can assess the Province's financial condition through a comparison of previous years' indicators.
- Gross Domestic Product (GDP) and population figures were obtained from Newfoundland and Labrador Statistics Agency. Figures used were the latest non-forecasted information available as of 31 March 2007.

### Flexibility

Flexibility refers to the degree to which a government can respond to rising commitments by either expanding its revenues or increasing its debt. Indicators of flexibility include:

#### a) Province's Interest Cost as a Percentage of Revenues

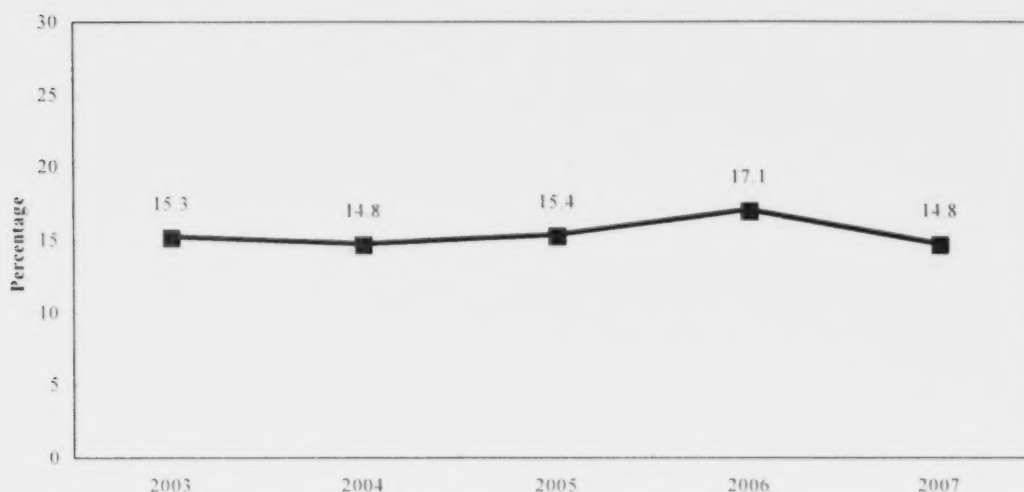
- This ratio measures the extent to which past borrowings may impact the Province's ability to provide for the economic and social needs of its citizens.
- The graph below indicates that the Province's interest cost as a percentage of revenues has ranged from 14.1% to 23.3% over the past five years, peaking in 2004, followed by a reduction of 9.2% to a low of 14.1% in 2007.
- The average of this ratio over the past five years is 19.5%. Although declining, interest costs remain a significant expense incurred by the Province since it represents 14.1% of all revenues.



#### b) Provincial Revenues as a Percentage of GDP

- The purpose of this indicator is to show the extent to which a government is taking income out of the economy in its jurisdiction, through both taxation and user charges.
- The following graph indicates that provincial revenues as a percentage of GDP have been fluctuating slightly over the last five years.

- The current year ratio is 14.8%, lower than the five-year average of 15.5%. This suggests that on average, the Province is taking less income out of the economy (as a percentage) through taxation and user fees.

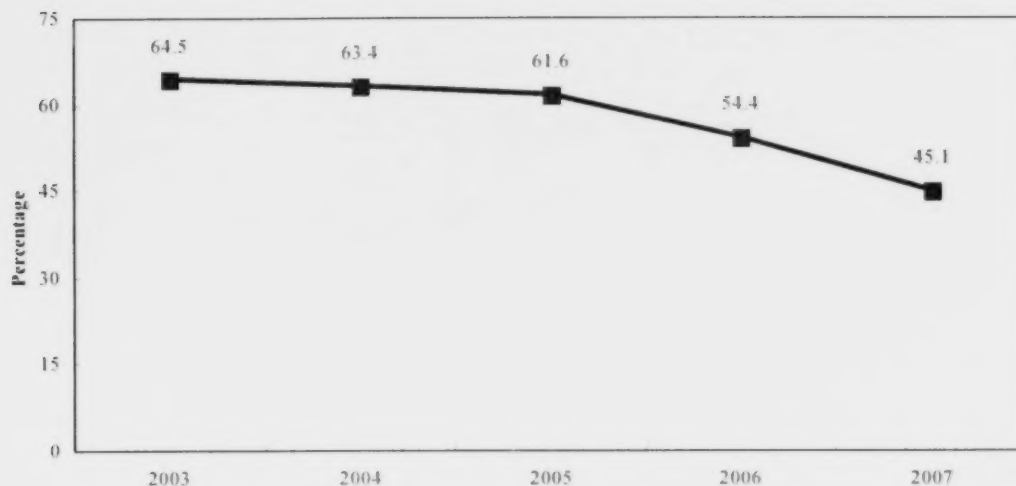


### Sustainability

Sustainability refers to the degree to which a government can meet its existing program commitments and creditor requirements without increasing the debt burden on the economy. Indicators of sustainability include:

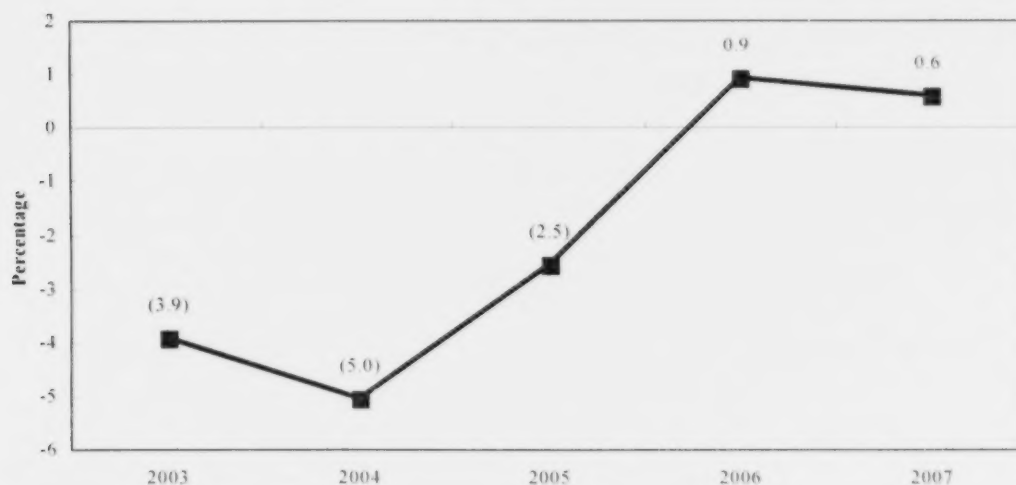
#### a) *Net Debt as a Percentage of GDP*

- This ratio measures the level of debt that the Province carries as a percentage of its GDP.
- As indicated in the following graph, net debt as a percentage of GDP has declined overall during the past five years. This relationship implies that the rate of economic growth is greater than the rate of growth in debt. The lower this ratio, the more room Government has to manoeuvre in making fiscal choices.
- The average of this ratio over the past five years is 57.8%, with a decline from 54.4% in 2006 to 45.1% in 2007. Since 2003, this ratio has decreased by 19.4%.



#### b) Annual Surplus (Deficit) as a Percentage of GDP

- This ratio measures the difference between revenues and expenses expressed as a percentage of GDP.
- As indicated in the graph below, the annual deficit as a percentage of GDP grew from 2003 to 2004, which corresponded to an increase in GDP over the same period. However, the Province's annual deficit as a percentage of GDP declined significantly in 2005 and moved to a surplus in 2006 to 0.9%. The annual surplus as a percentage of GDP decreased slightly in 2007 to 0.6%. This trend indicates that the Province has increased its ability to meet financial obligations over the past five years.
- The average of this ratio over the past five years is (2.0)%.

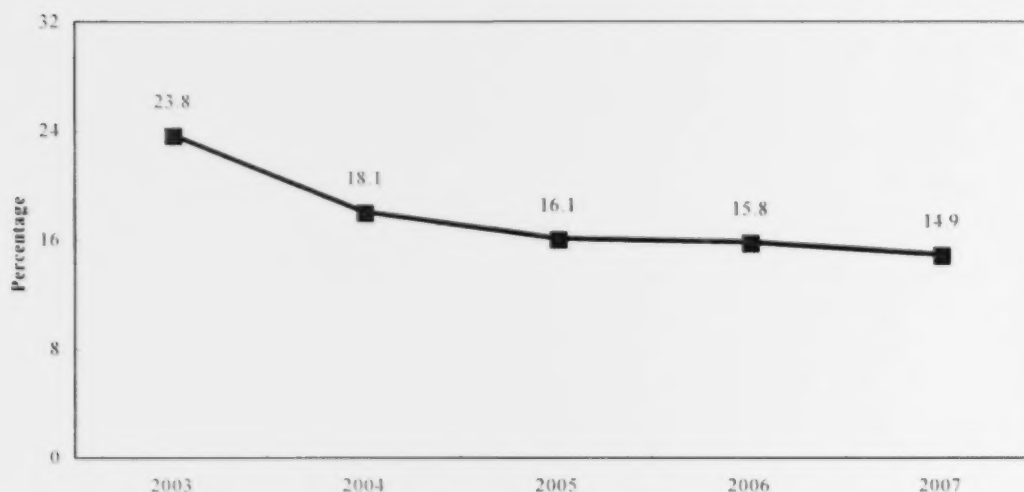


## Vulnerability

Vulnerability refers to the degree to which a government is dependent on, and therefore vulnerable to, sources of funding outside of its control or influence. Indicators of vulnerability include:

### a) *Foreign Currency Debt as a Percentage of Net Borrowings*

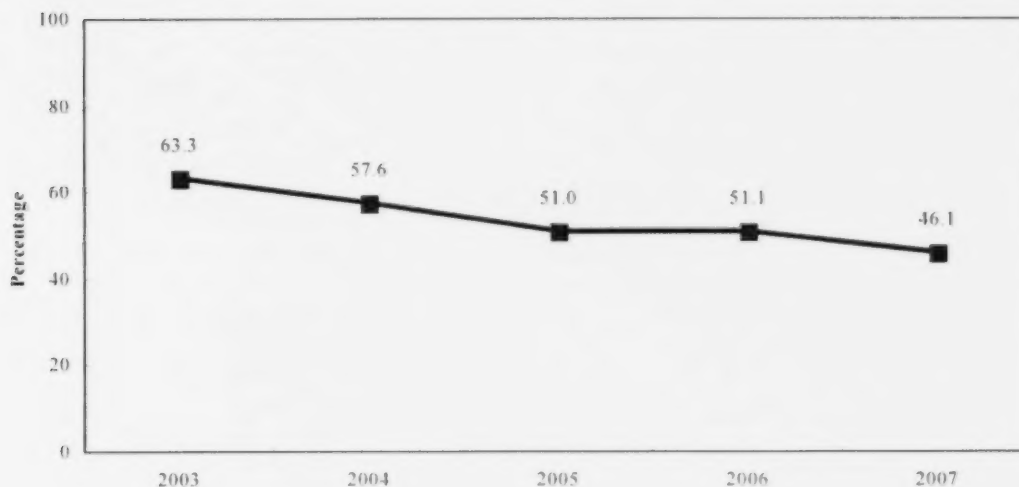
- This ratio measures the Province's foreign currency debt relative to its net borrowings. It reflects the degree of vulnerability to foreign currency swings that the Province faces.
- As indicated in the following graph, foreign currency debt as a percentage of net borrowings has been declining steadily over the last five years, thus indicating that the Province is less susceptible to foreign currency fluctuations in terms of repaying its debt.
- The average of this ratio over the past five years is 17.7%. While this percentage indicates that foreign currency debt has historically represented a significant portion of the Province's Borrowings, this ratio has now declined to a five-year low of 14.9% for 2007.



### b) *Federal Transfers as a Percentage of Provincial Revenues*

- This ratio measures the extent to which the Province raises its own revenue from within the Province as compared to the extent it receives funds from the Federal Government.
- As indicated in the following graph, federal transfers as a percentage of provincial revenues have declined since 2003 with the exception being a slight increase in 2006. The overall decrease from 2003 is 17.2% which includes a 5.0% reduction from 2006 to 2007. This reduction in federal transfers has placed a greater financial burden on the Province. Consequently, the fiscal policy decisions of the Federal Government have a significant impact on the Province's financial position.

- The 2007 ratio of federal transfers as a percentage of provincial revenues is down to 46.1%, which is less than the five-year average of 53.8%. This indicates the Province's historically heavy dependence on the Federal Government is gradually being reduced.



## **FINANCIAL PERFORMANCE**

The investment strategies and fiscal policies introduced in Budget 2006 for the fiscal year ended 31 March 2007 were put forward to help enable the Province to become much more prosperous and self-reliant. Investments in education, infrastructure, rural regions and the people of Newfoundland and Labrador will lead the way in securing and sustaining the current successes of the Province. The discussion and analysis presented in this report provides a summary which indicates that Government remains on track to meet long-term objectives for restoring the financial health of the Province. Through sound financial decision making and socially responsible spending, a consolidated accrual surplus has been reported for the second consecutive year.

Although the surplus reported for 2007 is below the 2006 figure, Newfoundland and Labrador is in a better position than at the beginning of the 2006-07 fiscal year. This is clearly indicated from decreases in both net debt and the accumulated deficit. Investments made by the Province will further reduce the high level of debt while at the same time provide for a self-reliant Newfoundland and Labrador. Government's challenge will be to sustain the current momentum in growth and prosperity while maintaining social and other responsibilities including managing the debt position.



# **Province of Newfoundland and Labrador**

## **Consolidated Summary Financial Statements**

**For The Year Ended  
31 March 2007**

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19 November 2007

## STATEMENT OF RESPONSIBILITY

Responsibility for the integrity, objectivity and fair presentation of the consolidated summary financial statements of the Province of Newfoundland and Labrador rests with the Government. As required under Section 59 of the *Financial Administration Act*, these consolidated summary financial statements are prepared by the Comptroller General of Finance in accordance with the applicable legislation and in accordance with the accounting policies as disclosed in Note 1 to these consolidated summary financial statements. These consolidated summary financial statements are prepared based upon information provided by the various Government departments and the noted Crown corporations, boards and authorities pursuant to Section 19 of the *Transparency and Accountability Act* and Section 20 of the *Financial Administration Act*.

The Government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained.

The consolidated summary financial statements in this volume include a Consolidated Statement of Financial Position, a Consolidated Statement of Change in Net Debt, a Consolidated Statement of Operations, a Consolidated Statement of Change in Accumulated Deficit, a Consolidated Statement of Cash Flows and notes. Other schedules and notes that are included also form an integral part of these statements.

Pursuant to Section 11 of the *Auditor General Act*, the Auditor General of Newfoundland and Labrador provides an independent opinion on the consolidated summary financial statements.

THOMAS W. MARSHALL, Q.C.  
Minister of Finance and President  
of Treasury Board

RONALD A. WILLIAMS, C.A.  
Comptroller General of Finance

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OFFICE OF THE AUDITOR GENERAL  
St. John's, Newfoundland and Labrador

**AUDITOR'S REPORT**

To the House of Assembly  
Province of Newfoundland and Labrador

I have audited the consolidated statement of financial position of the Province of Newfoundland and Labrador as at 31 March 2007 and the consolidated statements of change in net debt, operations, change in accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated summary financial statements present fairly, in all material respects, the financial position of the Province of Newfoundland and Labrador as at 31 March 2007 and the results of its operations, the changes in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles and, pursuant to Section 11 of the *Auditor General Act*, in accordance with the accounting policies of the Provincial government as disclosed in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

**JOHN L. NOSEWORTHY, CA**  
**Auditor General**

St. John's, Newfoundland and Labrador  
19 November 2007

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Consolidated Statement of Financial Position As at 31 March 2007 with comparative figures for 2006

		Actuals 2007	Actuals 2006
		(\$000)	(\$000)
<b>FINANCIAL ASSETS</b>			
	Cash and temporary investments - note 2 .....	600,264	833,802
Sch. 1	Receivables (net of valuation allowances) .....	565,098	416,038
	Inventories held for resale - note 3 .....	11,977	10,900
Sch. 2	Loans, advances and investments (net of valuation allowances) .....	293,953	301,316
Sch. 3	Equity in government business enterprises - note 1(b) .....	632,450	555,900
	<b>Total Financial Assets</b> .....	<b>2,103,742</b>	<b>2,117,956</b>
<b>LIABILITIES</b>			
Sch. 5	Payables, accrued and other liabilities .....	1,913,912	1,876,768
	Deferred revenue - note 4 .....	1,646,165	1,801,222
Sch. 6	Borrowings (net of sinking fund assets) .....	6,646,527	6,528,966
	Plus: Unamortized unrealized foreign exchange gains (losses) - note 5 ....	127,464	128,677
		6,773,991	6,657,643
	Group health and life insurance retirement benefits - note 6 .....	1,402,927	1,265,208
	Unfunded pension liability - note 7 .....	1,925,124	2,201,194
	<b>Total Liabilities</b> .....	<b>13,662,119</b>	<b>13,802,035</b>
	<b>NET DEBT</b> .....	<b>11,558,377</b>	<b>11,684,079</b>
<b>NON-FINANCIAL ASSETS</b>			
Sch. 9	Tangible capital assets .....	2,244,019	2,228,523
	Prepaid and deferred charges .....	39,799	28,920
	Inventories of supplies - note 3 .....	32,195	31,975
	<b>Total Non-Financial Assets</b> .....	<b>2,316,013</b>	<b>2,289,418</b>
	<b>ACCUMULATED DEFICIT</b> .....	<b>9,242,364</b>	<b>9,394,661</b>
	Contingent Liabilities - note 8		
	Contractual Obligations - note 9		
	Externally Restricted Assets - note 10		
Sch. 7	Guaranteed Debt - note 11		
Sch. 8	Trust Accounts - note 8(c)(iii)		

The accompanying notes and supporting schedules form an integral part of the financial statements.

## SUMMARY FINANCIAL STATEMENTS

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Consolidated Statement of Change in Net Debt**  
**For the year ended 31 March 2007**  
**with comparative figures for 2006**

	Actuals 2007 (\$000)	Original Estimates 2007 (Note 16) (\$000)	Actuals 2006 (\$000)
<b>NET DEBT - beginning of period</b> .....	11,684,079	11,861,212	11,887,642
Add (Deduct):			
Adjustments:			
Government organization changes - note 12 .....	1,788	-	(159,297)
<b>ADJUSTED NET DEBT - beginning of period</b> .....	11,685,867	11,861,212	11,728,345
<b>Surplus (Deficit) for the period</b> .....	154,085	6,155	199,282
<b>Changes in tangible capital assets</b>			
Acquisition of tangible capital assets .....	202,438	240,376	173,586
Net book value of tangible capital asset disposals/adjustments .....	(5,196)	-	147,224
Amortization of tangible capital assets .....	(181,746)	(177,125)	(174,446)
<i>Increase (Decrease) in net book value of tangible capital assets</i> ....	15,496	63,251	146,364
<b>Changes in other non-financial assets</b>			
Acquisition of prepaid and deferred charges (net of usage) .....	10,879	-	5,255
Acquisition of inventories of supplies (net of consumption) .....	220	-	3,397
<i>Increase (Decrease) in other non-financial assets</i> .....	11,099	-	8,652
<i>Increase (Decrease) in net debt</i> .....	(127,490)	57,096	(44,266)
<b>NET DEBT - end of period</b> .....	11,558,377	11,918,308	11,684,079

See accompanying notes to the financial statements.

# **PROVINCE OF NEWFOUNDLAND AND LABRADOR**

## **Consolidated Statement of Operations For the year ended 31 March 2007 with comparative figures for 2006**

		Actuals 2007 (\$000)	Original Estimates 2007 (Note 16) (\$000)	Actuals 2006 (\$000)
<b>REVENUE</b>				
Sch. 10	Provincial			
Sch. 10	Taxation .....	2,389,312	2,207,506	2,118,188
Sch. 10	Investment .....	261,148	221,516	289,860
Sch. 10	Fees and fines .....	224,342	214,392	231,179
Sch. 10	Offshore royalties .....	423,041	703,100	532,533
Sch. 10	Other .....	299,584	361,770	325,794
Sch. 10	Government of Canada .....	1,742,589	1,777,427	1,880,002
		5,340,016	5,485,711	5,377,556
Sch. 4	Net income of government business enterprises .....	181,150	177,012	178,032
	<b>Total Revenue .....</b>	<b>5,521,166</b>	<b>5,662,723</b>	<b>5,555,588</b>
<b>EXPENSE</b>				
Sch. 11	General Government Sector .....	1,376,186	1,373,373	1,494,843
Sch. 11	Resource Sector .....	212,726	236,615	184,546
Sch. 11	Social Sector .....	3,778,169	4,046,580	3,676,917
Sch. 12	<b>Total Expense .....</b>	<b>5,367,081</b>	<b>5,656,568</b>	<b>5,356,306</b>
<b>ANNUAL SURPLUS (DEFICIT) .....</b>		<b>154,085</b>	<b>6,155</b>	<b>199,282</b>

See accompanying notes to the financial statements.

# **PROVINCE OF NEWFOUNDLAND AND LABRADOR**

## **Consolidated Statement of Change in Accumulated Deficit For the year ended 31 March 2007 with comparative figures for 2006**

	Actuals 2007 (\$000)	Original Estimates 2007 (Note 16) (\$000)	Actuals 2006 (\$000)
<b>ACCUMULATED DEFICIT - beginning of period</b> .....	9,394,661		9,753,240
Add (Deduct):			
Adjustments:			
Government organization changes - note 12 .....	1,788		(159,297)
<b>ADJUSTED ACCUMULATED DEFICIT - beginning of period</b> ...	9,396,449		9,593,943
<b>Surplus (Deficit) for the period</b> .....	154,085	6,155	199,282
<b>ACCUMULATED DEFICIT - end of period</b> .....	<u>9,242,364</u>		<u>9,394,661</u>

See accompanying notes to the financial statements.

## SUMMARY FINANCIAL STATEMENTS

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Consolidated Statement of Cash Flows**  
**For the year ended 31 March 2007**  
**with comparative figures for 2006**

	Actuals 2007	Actuals 2006
	(\$000)	(\$000)
<b>Funds provided from (applied to):</b>		
<b>OPERATIONS</b>		
Annual surplus (deficit) .....	154,085	199,282
Add (Deduct) non-cash items:		
Amortization of foreign exchange gains/losses .....	(10,906)	(8,433)
Amortization of tangible capital assets .....	181,746	174,446
Retirement costs .....	312,368	431,567
Valuation allowances .....	12,975	15,164
Unremitted net income of government business enterprises .....	(76,550)	(23,232)
Sinking fund earnings .....	(58,576)	(53,643)
Deferred revenue .....	(155,057)	1,781,740
Other .....	(120,862)	98,936
<i>Net cash provided from (applied to) operating transactions</i> .....	<u>239,223</u>	<u>2,615,827</u>
<b>CAPITAL</b>		
Acquisitions .....	(202,438)	(173,586)
Disposals .....	1,390	1,863
<i>Net cash provided from (applied to) capital transactions</i> .....	<u>(201,048)</u>	<u>(171,723)</u>
<b>FINANCING</b>		
Debt issued .....	550,710	226,854
Debt retirement .....	(317,097)	(396,622)
Special purpose funds/contractors' holdback funds .....	4,373	(2,267)
Treasury bills redeemed .....	(1,956,200)	(1,962,694)
Treasury bills purchased .....	1,955,541	1,961,293
Equalization loan .....	(37,840)	-
Sinking fund contributions .....	(46,568)	(46,519)
Retirement of pension liabilities .....	(451,900)	(2,106,222)
<i>Net cash provided from (applied to) financing transactions</i> .....	<u>(298,981)</u>	<u>(2,326,177)</u>
<b>INVESTING</b>		
Loan repayments .....	75,318	72,491
Loan advances .....	(40,891)	(45,527)
Investments .....	(7,159)	(47,416)
<i>Net cash provided from (applied to) investing transactions</i> .....	<u>27,268</u>	<u>(20,452)</u>
<i>Net cash provided (applied)</i> .....	<u>(233,538)</u>	<u>97,475</u>
Cash and temporary investments - beginning of period .....	833,802	736,327
<b>CASH AND TEMPORARY INVESTMENTS - end of period - note 2, .....</b>	<u><u>600,264</u></u>	<u><u>833,802</u></u>

See accompanying notes to the financial statements.



## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Notes to the Consolidated Financial Statements For the year ended 31 March 2007

#### 1. Summary of Significant Accounting Policies

##### (a) The Reporting Entity

The Reporting Entity includes the accounts and financial activities of organizations, as approved by Treasury Board, which are controlled by Government. These organizations are accountable for the administration of their financial affairs and resources either to a Minister of the Government or directly to the Legislature.

A listing of organizations included in these financial statements is provided in Schedule 14 - Government Reporting Entity.

##### (b) Method of Consolidation

The accounts of government organizations, except those designated as government business enterprises, are consolidated after adjusting them to a basis consistent with the accounting policies described below. Inter-organizational transactions and balances are eliminated.

A government business enterprise is an organization, included in the reporting entity, that has the financial and operating authority to carry on a business and sell goods and services to individuals and non-government organizations as its principal activity and source of revenue.

Government business enterprises are recorded on the modified equity method. Under this method, the Government's equity in these enterprises is adjusted annually to reflect the net income/loss and other net equity changes of the enterprise without adjusting the enterprise's financial statements to conform with the accounting policies described below. Inter-organizational transactions and balances are not eliminated.

Adjustments are not made to the financial results of government organizations because of fiscal year-ends different than that used for the consolidated entity, unless it would have a significant impact on the consolidated operating results.

##### (c) Basis of Accounting

###### (i) Method

These financial statements are prepared on the accrual basis of accounting, revenues being recorded when earned and expenses being recorded when liabilities are incurred, with exceptions made in accordance with the applicable significant accounting policies.

###### (ii) Revenues

Revenues from the Government of Canada under the federal-provincial fiscal arrangements, health and social transfers and tax collection agreements are based on regular entitlements received for the current year and adjusted against future years' revenues when known.

Other revenues are recorded on an accrual basis.

###### (iii) Expenses

Expenses are recorded on an accrual basis.

Retirement related costs are determined as the cost of benefits and interest on the liabilities accrued, as well as amortization of experience gains and losses.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(iv) *Assets*

Temporary investments are recorded at cost or market value, whichever is lower.

Receivables are recorded for all amounts due for work performed and goods or services supplied. Valuation allowances are provided when collection is considered doubtful.

Inventories held for resale are recorded at the lower of cost or net realizable value.

Inventories of supplies are comprised of items which are held for consumption that will be used by the Province in the course of its operations.

Loans and advances are recorded at cost. Valuation allowances are recorded to reflect assets at the lower of cost or net recoverable value. Loans made by the Province that are expected to be recovered from future appropriations are accounted for as expenses by providing valuation allowances. Interest revenue on loans receivable is recognized when earned and ceases when collection is not reasonably assured.

Investments are recorded at cost and are written down when there is a loss in value that is other than a temporary decline.

Equity in government business enterprises represents the net assets of government business enterprises recorded on the modified equity basis as described under note 1(b).

Unrealized foreign exchange gains or losses are deferred and amortized on a straight line basis over the remaining term of the debt.

Tangible capital assets held by the Province are recorded at cost or estimated cost less accumulated amortization.

(v) *Liabilities*

Payables, accrued and other liabilities are recorded for all amounts due for work performed, goods or services received or for charges incurred in accordance with the terms of a contract.

Deferred revenue represents amounts received but not earned.

Borrowings, except treasury bills, are recorded at face value and are reported net of sinking funds. Treasury bills are recorded at net proceeds. The Province records foreign-denominated debt in Canadian dollars translated at the exchange rate on the transaction date which is considered to be the issue date; except for the proceeds of hedged transactions which are recorded at the rate as established by the terms of that hedge. Foreign-denominated sinking fund assets are also recorded in Canadian dollars and transactions are translated at the exchange rate used in recording the related debt. At 31 March, foreign debt and sinking funds are adjusted to reflect the exchange rate in effect on that date.

(vi) *Government Transfers*

Government transfers are recognized by the Province as revenues or expenses in the period during which both the payment is authorized and any eligibility criteria are met.

(vii) *Loan Guarantees*

The Province has guaranteed the repayment of principal and interest on certain debentures and bank loans on behalf of Crown corporations, municipalities, private sector companies and certain individuals. A provision for losses on these guarantees is established when it is determined that a loss is likely.

(d) **Generally Accepted Accounting Principles**

The accounting policies followed in the preparation of these financial statements have been applied consistent with generally accepted accounting principles for senior governments as established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**2. Cash and Temporary Investments**

Cash and temporary investments consist of:

	31 March 2007	31 March 2006
	(\$mil)	(\$mil)
Cash and temporary investments - Consolidated Revenue Fund (CRF) . . . . .	433.3	726.6
Cash and temporary investments - Other Entities:		
Temporary investments . . . . .	61.3	32.3
Cash balance (overdraft) . . . . .	105.7	74.9
Total cash and temporary investments - Other Entities . . . . .	167.0	107.2
Cash and temporary investments (CRF and Other Entities) . . . . .	600.3	833.8

Temporary investments consist of investments with financial institutions. As at 31 March 2007, these investments are on call or have maturity dates ranging from 03 January 2007 to 01 December 2015 at interest rates which vary from 2.00% to 7.00%.

**3. Inventories**

Inventories for resale of \$12.0 million consist of \$8.7 million relating to Newfoundland and Labrador Housing Corporation land assemblies, \$1.9 million relating to Memorial University of Newfoundland primarily for textbooks and stockroom supplies, \$1.0 million relating to College of the North Atlantic primarily for textbooks and food supplies with the balance of \$0.4 million relating to other entities.

Inventories of supplies of \$32.2 million is comprised of \$14.8 million for medical and drug supplies held by health sector entities, \$15.9 million for textbooks and stockroom supplies held within the Consolidated Revenue Fund and \$1.5 million for miscellaneous inventories.

**4. Deferred Revenue**

The deferred revenue totalling \$1,646.2 million consists primarily of \$1,458.5 million relating to the Atlantic Accord (2005), which represents the unearned balance of the \$2.0 billion advance payment received in 2005-06. In addition, the deferred revenue balance consists of \$51.7 million relating to Federal Government funding for various health care initiatives, \$44.9 million relating to Federal initiatives in support of post-secondary education, public transit and affordable housing, \$16.4 million relating to gas tax initiatives, \$62.3 million relating to entities in the education sector, \$7.4 million relating to entities in the health sector, and \$5.0 million related to other miscellaneous programs. These amounts will be recognized as revenue in the periods in which the revenue recognition criteria have been met.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**5. Unamortized Unrealized Foreign Exchange Gains and Losses**

Foreign currency debt and sinking funds are translated to Canadian dollars at the exchange rate at 31 March 2007. See Schedule 6 - Borrowings. Details of the effect of these translations at year end are outlined in the table below.

The net amortization is \$10.9 million which represents a credit adjustment (31 March 2006 - \$8.4 million-credit adjustment).

	31 March 2007	31 March 2006
	(\$mil)	(\$mil)
Unrealized foreign exchange gain (loss):		
Debt .....	73.9	58.5
Sinking funds .....	(24.1)	(18.4)
Net .....	49.8	40.1
Total accumulated amortization .....	77.7	88.6
Net unamortized unrealized foreign exchange gain (loss) .....	127.5	128.7

**6. Retirement Benefits - Group Health and Life Insurance**

All retired employees of the Government of Newfoundland and Labrador who are receiving a pension from the Public Service Pension Plan, Uniformed Services Pension Plan, Members of the House of Assembly Pension Plan or the Provincial Court Judges' Pension Plan are eligible to participate in the group insurance program sponsored by Government. All retired teachers who are receiving a pension from the Teachers' Pension Plan are eligible for coverage under the group insurance program sponsored by the Newfoundland and Labrador Teachers Association (NLTA) and cost shared by Government. All retired employees of the Newfoundland and Labrador Housing Corporation (NLHC) are eligible to participate in the group insurance plans sponsored by NLHC. All retired employees of Memorial University of Newfoundland (MUN) who are receiving a pension from the Memorial University Pension Plan or another retirement benefit to which MUN contributed are eligible to participate in the group insurance plans sponsored by MUN. These programs provide both group health and group life benefits to enrolled retirees.

Under the plans sponsored by the Province, NLTA and NLHC, the employer contributes 50% towards group health and group life premiums for both employees and retirees. Plans sponsored by the NLTA are subject to the maximum rates under the NLTA's program. For plans sponsored by MUN, the employer also contributes 50% of the total premium charged towards the benefits of both employees and retirees, with the exception of certain retirees whose health benefits are fully funded by MUN. As at 31 March 2007, the total of all the plans provided benefits to 17,577 retirees.

**Actuarial Valuations**

An actuarial valuation was prepared by the Province's actuaries (valuation date of 31 March 2006) for the programs sponsored by the Province and the NLTA. The actuarial valuation was based on a number of assumptions about future events including an interest rate of 4.67%, CPI of 3.0%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality. The assumptions used reflect the Province's best estimates of expected long-term rates and short-term forecasts.

An actuarial valuation was prepared by NLHC's actuaries (valuation date of 31 March 2007) for the programs sponsored by NLHC. The actuarial valuation was based on a number of assumptions about future events including an interest rate of 6.0%, CPI of 2.5%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality. The assumptions used reflect NLHC's best estimates of expected long-term rates and short-term forecasts.

An actuarial valuation was also prepared by MUN's actuaries (valuation date of 31 March 2004) for the programs sponsored by MUN. The actuarial valuation was based on a number of assumptions about future events which have subsequently been revised in recent extrapolations. These revised assumptions include an interest rate of 5.0%, CPI of 3.25%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality. The assumptions used reflect MUN's best estimates of expected long-term rates and short-term forecasts.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Group Health and Life Insurance Retirement Benefits Liability**

Details of the group health and life insurance retirement benefits liability are outlined in the table below:

Plan	Estimated Accrued Benefit Obligation	Unamortized Experience Losses 2007	Net Liability 2007	Net Liability 2006	Difference
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Group health retirement benefits	1,555.0	(226.4)	1,328.6	1,201.8	126.8
Group life insurance retirement benefits	74.0	0.3	74.3	63.4	10.9
	1,629.0	(226.1)	1,402.9	1,265.2	137.7

There are no fund assets associated with these plans.

**Group Health and Life Insurance Retirement Benefits Expense**

In these statements, group health and life insurance retirement benefits costs have been determined as the cost of benefits accrued during the period. Interest on the liability has been accrued for the same period.

The change in the liability for the current period is comprised of the following amounts:

Plan	Employer's Share of Current Period Costs	Interest Expense on the Liability	Employer's Current Period Contributions	Current Period Amortization of Experience Changes	Other Adjustments	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Group health retirement benefits	40.5	68.5	(24.2)	14.9	27.1	126.8
Group life insurance retirement benefits	1.3	2.9	(3.2)	(0.2)	10.1	10.9
	41.8	71.4	(27.4)	14.7	37.2	137.7

Interest expense related to the group health and life insurance retirement benefits liability is included with interest as debt expenses in the financial statements. Interest expense for 31 March 2006 amounted to \$73.0 million.

**Experience Gains or Losses**

Experience gains or losses are amortized over the estimated average remaining service life of active participants. The amortization amount is included with retirement costs in the financial statements commencing in the year subsequent to the year in which the experience gain or loss arose.

**Plan Amendment**

Included within other adjustments of \$37.2 million above, are the following plan amendments. The group health and life insurance plans were amended to reflect the effect of the recent benefit improvements in the NLTA and the Public Service post-retirement programs. As a result of these amendments, the net liability for group insurance retirement benefits increased by \$35.7 million. There were no actuarial gains or losses recognized as a result of these amendments. MUN's group health plan was amended by advancing the fee schedule for the dental plan to the 2005 NL Fee Guide and paramedical benefits were improved to provide 80% reimbursement subject to \$500 maximum per individual practitioner and an overall maximum of \$1,500. These improvements did not affect the extrapolated liability.

**7. Retirement Benefits - Pensions****Defined Benefits**

The Government of Newfoundland and Labrador guarantees defined benefit pension plans for substantially all of its full time employees, and those of its Agencies, Boards and Commissions and for members of its Legislature. The plans are - the Public Service Pension Plan, Teachers' Pension Plan, Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan, and the Provincial Court Judges' Pension Plan. In addition, Memorial University of Newfoundland (MUN) also has a defined benefit pension plan for full time employees known as the Memorial University of Newfoundland Pension Plan. Combined, the plans have 36,098 participants.

The Plans provide for pensions based on employees' length of service and highest average earnings. Employees contribute a defined percentage of their salary, and the employer generally matches this amount. As at 31 March 2007, the plans provided benefits to 22,402 pensioners. Inflation protection is not extended to pensioners of the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan nor to pensioners of the Teachers' Pension Plan who retired prior to 01 September 1998.

In 1980, the Province of Newfoundland and Labrador Pooled Pension Fund was established by the *Pensions Funding Act*, with the Minister of Finance as Trustee. This Fund administers all financial activity, including the collection of all contributions and the payment of pensions and the investment of funds for all the pension plans noted above with the exception of the Memorial University of Newfoundland Pension Plan. The financial activity of the Memorial University of Newfoundland Pension Plan is administered by MUN. The Consolidated Revenue Fund guarantees any deficiency in the event assets of a plan are insufficient to meet benefit payments or administration costs.

**Contribution and Benefit Formulae****Public Service Pension Plan**

Employee contributions are 8.6% of pensionable salary, less a formulated amount representing contributions to the Canada Pension Plan (CPP). A pension benefit is available based on the number of years of pensionable service times 2% of the employee's best five years average salary, reduced by a formulated amount representing CPP pension benefits for each year since 1967.

During 2006-07 plan legislation was enacted consistent with the two components of the Plan. The Registered component will continue to be administered within the Province of Newfoundland and Labrador Pooled Pension Fund and will provide benefits based on limits set out in the federal *Income Tax Act*. The Supplementary component will be administered in the accounts of the Consolidated Revenue Fund and will provide for the remainder of benefits under the Plan.

**Teachers' Pension Plan**

Employee contributions are 9.35% of pensionable salary. A pension benefit is available based on the number of years of pensionable service prior to 1 January 1991 times 1/45th of the employee's best five years average salary, plus 2% of the employee's best five years average salary times years of pensionable service after that date, reduced by a formulated amount representing CPP pension benefits for each year since 1967. The CPP reduction only applies to pensioners who retired after 31 August 1998.

During 2006-07 plan legislation was enacted consistent with the two components of the Plan. The Registered component will continue to be administered within the Province of Newfoundland and Labrador Pooled Pension Fund and will provide benefits based on limits set out in the federal *Income Tax Act*. The Supplementary component will be administered in the accounts of the Consolidated Revenue Fund and will provide for the remainder of benefits under the Plan.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Memorial University of Newfoundland Pension Plan**

Employee contributions are 9.2% of pensionable salary, less a formulated amount representing contributions to the CPP. A pension benefit is available based on the number of years of pensionable service times 2% of the employee's best five years average salary, reduced by a formulated amount representing CPP pension benefits for each year since 1967.

In addition to the above Registered component, in May 1996, MUN approved a Supplemental Retirement Income Plan to provide benefits to employees whose salaries exceed the maximum pensionable salary and whose defined benefit pension, therefore, exceeds the maximum benefits payable from the Memorial University of Newfoundland Pension Plan as per limits set out in the federal *Income Tax Act*. As well, in February and May 1996, MUN offered employees who reached the age of 55 and attained a minimum of 10 years pensionable service, an opportunity to take an early retirement under the provisions of the Voluntary Early Retirement Incentive Program. The program provided an incentive of enhanced pension benefits of up to five years pensionable service and waiver of actuarial reduction, if applicable, or a lump sum early retirement payment.

**Uniformed Services Pension Plan**

Employee contributions are 8.5% of pensionable salary, less a formulated amount representing contributions to the CPP. A pension benefit is available based on the number of years pensionable service times 2% of the employee's best three years average salary, reduced by a formulated amount representing CPP pension benefits since 1967. Grandfathered members have higher service accrual pensions in recognition of their higher contributions.

**Members of the House of Assembly Pension Plan**

Member contributions are 9% of pensionable salary, which includes salary as a Minister, if applicable. A pension benefit is available after serving as a Member in, at least, two General Assemblies and for, at least, five years. The benefit formula is based on years of service expressed as a percentage of the average pensionable salary for the best three years. The percentage varies being 5% for each of the first ten years, 4% for each of the next five years and 2.5% for each of the next two years of service as a Member. For members elected for the first time after 1 April 1998, the percentage is 5% for the first ten years and 2.5% for each of the next ten years. The accrued benefit is reduced by a formulated amount representing CPP pension benefits for each year since 1967. Ministers receive an additional pension amount calculated similarly, based on service and pensionable salary as a Minister.

During 2005-06 the *Members of the House of Assembly Retiring Allowances Act* was enacted to restructure the Members of the House of Assembly Pension Plan into two components based on limits set out in the federal *Income Tax Act*. The first, or Registered component, will continue to be administered within the Province of Newfoundland and Labrador Pooled Pension Fund. The second, or the Supplementary Employee Retirement component, will be administered in the accounts of the Consolidated Revenue Fund.

**Provincial Court Judges' Pension Plan**

Effective 01 April 2002 (pursuant to the *Provincial Court Judges' Pension Plan Act* enacted 08 June 2004) the Provincial Court Judges' Pension Plan was established with then-existing judges being given the one-time option of transferring from the Public Service Pension Plan. All judges appointed subsequent to 01 April 2002 are required to join this Plan. Employee contributions are 9% of pensionable salary. A pension benefit is available based on the number of years pensionable service times 3.33% of the employee's annual salary. The Registered component of the Plan, administered within the Province of Newfoundland and Labrador Pooled Pension Fund, provides benefits based on limits set out in the federal *Income Tax Act* with the remainder of the benefit provided by the Supplementary component. The Supplementary component will be administered in the accounts of the Consolidated Revenue Fund.



## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Actuarial Valuations**

The actuarial valuations which are prepared by the Province's and MUN's actuaries were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. The assumptions used reflect the Province's and MUN's best estimates of expected long-term rates and short-term forecasts. The expected interest and inflation rates follow:

**Expected Interest Rates**

The expected average interest rate for the Public Service Pension Plan is 7.5%. The expected rate for the Teachers' Pension Plan is 7.5% projected on a long term basis. The expected rate for the Memorial University of Newfoundland Pension Plan for the Registered component and the Supplemental Retirement Income Plan is 7.0% and 8.0% for the Voluntary Early Retirement Income Plan projected on a long term basis. The expected rate for the Uniformed Services Pension Plan is 7.5% projected on a long term basis. The expected rate for the Members of the House of Assembly Pension Plan is 7.5% for the Registered component and 4.66% for the Supplementary Employee Retirement component, projected on a long term basis. The expected rate for the Provincial Court Judges' Pension Plan is 7.0% for the Registered component and 4.84% for the Supplementary Employee Retirement component, projected on a long term basis.

**Expected Inflation Rates**

The expected inflation rate for the Public Service Pension Plan is 3.0%. The expected rate for the Teachers' Pension Plan is 3.0%. The expected rate for the Memorial University of Newfoundland Pension Plan is 3.25%. The expected rate for the Uniformed Services Pension Plan is 3.0% projected on a long term basis. The expected rate for the Members of the House of Assembly Pension Plan is 3.0% projected on a long term basis. The expected rate for the Provincial Court Judges' Pension Plan is 3.0%.

The latest actuarial valuations for the Province's pension plans, according to the administrators of those plans, are dated as listed in the following table:

Pension Plan	Valuation Date
Public Service	31 December 2006
Teachers'	31 August 2006
Memorial University of Newfoundland	31 March 2007
Uniformed Services	31 December 2005
Members of the House of Assembly	31 December 2006
Provincial Court Judges'	31 December 2004

Actuarial extrapolations are provided for accounting purposes by the Province's actuaries based on the above dates, unless otherwise noted.



## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Pension Liability**

Details of the pension liability are outlined in the table below. The estimated accrued benefit obligation and the value of the plan assets reported below have been extrapolated by the Province's actuaries to 31 March 2007. The actual results of future valuations may result in variances from these extrapolations.

Pension Plan	Estimated Accrued Benefit Obligation	Fund Assets	Unamortized Experience Losses 2007	Net Unfunded Liability 2007	Net Unfunded Liability 2006	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	4,524.8	3,072.6	(25.8)	1,426.4	1,755.6	(329.2)
Teachers'	3,395.8	3,089.3	(69.1)	237.4	200.1	37.3
Memorial University of Newfoundland	773.3	733.5	(22.4)	17.4	18.8	(1.4)
Uniformed Services	283.2	83.1	(15.6)	184.5	170.6	13.9
Members of the House of Assembly	85.7	11.5	(19.4)	54.8	52.1	2.7
Provincial Court Judges'	6.3	2.2	0.5	4.6	4.0	0.6
<b>Total</b>	<b>\$9,069.1</b>	<b>\$6,992.2</b>	<b>(\$151.8)</b>	<b>\$1,925.1</b>	<b>\$2,201.2</b>	<b>(\$276.1)</b>

Pension Fund Assets, with the exception of the Memorial University of Newfoundland Pension Plan, are valued at the market value at 31 December 2006 and projected to year end. Pension Fund Assets for the Memorial University of Newfoundland Pension Plan are valued at the market value at 31 March 2007.

**Special Payments**

Pursuant to the applicable pensions legislation, the Province had agreed to make special payments of \$60 million annually into the Public Service Pension Plan as long as the plan remains unfunded, of which \$45 million was paid during 2006-07. The agreement was amended during the year to replace this annual funding as a result of the commitment of the Province to make a one time total contribution of \$982 million to the Public Service Pension Plan to help address the unfunded liability. Of the additional \$982 million contribution, \$400 million was made as at 31 March 2007 with the remaining \$582 million being paid by 30 June 2007. During the year, MUN made a special payment of \$6.9 million to liquidate the unfunded liability. The annual payments of \$20 million made to the Uniformed Services Pension Plan over a five year period beginning in 2001-02 concluded as at 31 March 2006. Also, commencing in 2001-02, the Province began making annual payments of \$7.5 million to the Members of the House of Assembly Pension Plan, however, these payments will only be allowable under the federal *Income Tax Act* to the extent that they fully fund the Registered component of the Plan. There were no special payments made to the Members of the House of Assembly Pension Plan in 2006-07.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Pension Expense**

In these statements, pension costs have been determined as the cost of benefits accrued during the period. Interest on the unfunded liability has been accrued for the same period.

The change in the unfunded liability for the current period for each plan is comprised of the following amounts:

Pension Plan	Province's Share of Pension Benefits Earned for the Period	Pension Interest Expense on the Unfunded Liability	Province's Current Period Pension Contributions	Current Period Amortization of Experience Changes	Other Adjustments	Unfunded Portion of Current Period Pension Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	40.7	129.8	(510.9)	11.2	-	(329.2)
Teachers'	17.3	25.0	(32.9)	25.1	2.8	37.3
Memorial University of Newfoundland	14.9	2.8	(22.6)	3.5	-	(1.4)
Uniformed Services	2.3	13.0	(1.9)	0.5	-	13.9
Members of the House of Assembly	1.5	3.5	(4.6)	2.3	-	2.7
Provincial Court Judges'	0.6	0.2	(0.1)	(0.1)	-	0.6
<b>Total</b>	<b>\$77.3</b>	<b>\$174.3</b>	<b>(\$573.0)</b>	<b>\$42.5</b>	<b>\$2.8</b>	<b>(\$276.1)</b>

Pension interest expense is included with interest as debt expenses in the financial statements. Pension interest expense for 31 March 2006 amounted to \$335.4 million.

**Experience Gains or Losses**

Experience gains or losses are amortized over the estimated average remaining service life of active contributors. The amortization amount is included with retirement costs in the financial statements commencing in the year subsequent to the year in which the experience gain or loss arose.

**Plan Amendment**

The Teachers' Pension Plan was amended in December 2005 to allow a teacher terminating employment with at least 5 years of pensionable service, but not entitled to an immediate benefit, the option of choosing either a commuted value transfer or a deferred pension. Death benefits under the Plan were also amended to provide commuted value payment options. As a result of these plan amendments the unfunded liability for the current year was increased by \$2.8 million. There were no actuarial gains or losses recognized as a result of this amendment.

**Other Pension Plans**

The Government Money Purchase Pension Plan was established for employees whose employment status does not qualify them for participation in another of their employer's pension plans. This plan has approximately 25,350 participants. Employees contribute 5% of their salary to the Plan and the Province generally matches this contribution. Each employee will receive an annuity at retirement, the value of which is determined by their accumulated contributions plus investment earnings. This Plan is administered by the London Life Insurance Company and at 31 March 2007 assets had a market value of \$224.7 million (31 March 2006 - \$200.3 million).

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**8. Contingent Liabilities****(a) Guarantees**

Guarantees made by the Province amounted to \$1,336.2 million (31 March 2006 - \$1,481.4 million). In addition, the Province guaranteed the interest thereon. See Schedule 7 - Guaranteed Debt.

**(b) Legal Actions**

- (i) There have been a number of statements of claim alleging negligence on the part of Government employees and agencies in not preventing abuse while these claimants were under Government care.
- (ii) A number of claims have been filed against the Province for alleged breaches of contracts and/or tenders as well as for general damages and personal claims pursuant to action initiated by the Province.

**(c) Other****(i) Registrar of the Supreme Court**

The Province of Newfoundland and Labrador guarantees all sums required to discharge the balances of the Registrar of the Supreme Court as administrator, guardian, trustee, etc. (*Judicature Act*).

**(ii) Pensions****a) Province of Newfoundland and Labrador Pooled Pension Fund**

Pursuant to Section 9 of the *Pensions Funding Act*, the Consolidated Revenue Fund is liable for any deficiency in the Province of Newfoundland and Labrador Pooled Pension Fund covered by that Act. See note 7.

**b) Memorial University of Newfoundland Pension Fund**

Pursuant to Section 6 of the *Memorial University Pensions Act*, if there is insufficient money in the Memorial University of Newfoundland Pension Fund to provide for the payment of applicable expenditures as they fall due, the Consolidated Revenue Fund is liable for payment of an amount to cover the deficiency. As at 31 March 2007, the Memorial University of Newfoundland Pension Plan had a net unfunded pension liability for funding purposes of \$57.9 million. However, there currently exists sufficient money in the Fund for the payment of expenditures as they fall due. See note 7.

**(iii) Trust Accounts**

Generally, the Province is contingently liable for any shortage that may occur for certain funds held in trust by the Province. Currently, all obligations held have an offsetting asset. See Schedule 8 - Trust Accounts.

**(iv) Canadian Saltfish Corporation**

On 17 July 1970, the Province entered into an agreement with the Government of Canada for the marketing of saltfish products by the Canadian Saltfish Corporation (the Corporation), pursuant to the *Saltfish Act*. The Agreement provided that the Province is required to pay to the Government of Canada a proportional share of 50 per cent of the losses of the Corporation. This share is based on the total value of annual sales of cured fish products applicable to each participating province.

On 19 February 1993, the Government of Canada requested that the Province compensate it for losses incurred to 31 March 1992. The amount which the Government of Canada calculated as the Province's share of the losses was \$21.6 million.

The Corporation was dissolved with effect from 1 April 1995, so that resolution of the matter will be between the Government of Canada and the Province. However, the Province takes the position that for a number of reasons, including the fact that the Corporation engaged in activities beyond its mandate as determined by the Auditor General of Canada and confirmed by the Department of Justice of Canada, it is not liable for the amount claimed.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(v) *Newfoundland and Labrador Student Loans Program*

Under the loan guarantee component of this Program, the Province has issued guarantees totalling \$0.1 million. Under the debt reduction component of the Program, the Province is contingently liable for probable grants totalling \$24.3 million. An amount of \$18.2 million has been recorded as a provision for probable grants related to student loans due to the debt reduction program. See Schedule 2 - Loans, Advances and Investments.

(vi) *Environmental Responsibility*

As a result of delivering its stated programs and initiatives, there are a number of sites throughout the Province which are considered potentially contaminated sites. A liability will be accrued in the financial statements when it has been determined that the Province is liable for a site which has become contaminated and where a reasonable estimate of the remediation costs can be made. To date, \$7.3 million has been recorded (see Schedule 5 - Payables, Accrued and Other Liabilities). Where it is uncertain as to whether an obligation exists for the Province to remediate a contaminated site, then information on any such sites will be disclosed as contingent liabilities.

As at 31 March 2007, while the Province is aware of a number of contaminated sites, the full extent of the remediation costs for these known sites is not readily determinable. Efforts are ongoing to identify any other potentially contaminated sites which are owned by the Province and to collect the information necessary to assess the extent or likelihood of any environmental damage. These efforts may result in recognizing environmental liabilities or disclosing contingent liabilities due to newly identified sites and/or changes in the assessments of currently known sites.

**9. Contractual Obligations**

Contractual obligations to outside organizations in respect of contracts entered into before 31 March 2007 amount to \$389.1 million, of which \$212.0 million is for capital projects, \$55.1 million for lease payments, \$44.1 million for information technology services, \$24.2 million for energy savings projects, \$17.0 million for ferry services, \$14.5 million for forestry related projects, \$5.0 million for phone services, and other agreements of \$17.2 million. These contractual obligations will become liabilities when the terms of the contracts are met. Payments in respect of these contracts and agreements for the Consolidated Revenue Fund are subject to the voting of supply by the Legislature.

**10. Externally Restricted Assets**

Externally restricted assets amount to of \$48.7 million (31 March 2006 - \$45.2 million) of which \$48.4 million relates to Memorial University of Newfoundland consisting of assets held for endowment purposes whereby the principal is not expendable. Income earned on these assets is required to be used for the purpose specified by the donors and hence can not be used for other operating purposes. The externally restricted assets consist of donations and investments which are to be used for scholarships, assistance, professional recruitment and development, equipment and other external endowments. Deferred revenue of \$18.6 million (31 March 2006 - \$16.9 million) has been recorded in relation to these assets and is included in the amount noted in note 4 for the education sector. Externally restricted assets of other entities amount to \$0.3 million which relate to various donations designated for specified purposes.

**11. Provision for Guaranteed Debt**

The provision for probable losses on guaranteed debt (see note 8(a)) is nil (31 March 2006 - \$0.02 million). See Schedule 5 - Payables, Accrued and Other Liabilities.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**12. Government Organization Changes**

The Net Debt and Accumulated Deficit at 31 March 2007 have been increased by \$1.8 million to reflect the change to the prior year's amounts in the 31 March 2006 financial statements of certain entities. This amount is comprised of a \$5.2 million increase in equity changes to entities within the Social Sector, an increase of \$0.2 million in equity changes to entities within the Resource Sector offset by a decrease of \$3.6 million in equity changes to entities within the General Sector. The Net Debt and Accumulated Deficit at 31 March 2006 have been decreased by \$159.3 million to reflect the change to the prior year's amounts in the 31 March 2005 financial statements of certain entities, of which \$155.5 million relates to inclusion of Memorial University of Newfoundland in the 2005-06 Government reporting entity. These changes have been applied retroactively without restatement.

**13. Measurement Uncertainty**

Measurement uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Estimates are based on the best information available at the time of preparation of the financial statements and are adjusted annually to reflect new information as it becomes available. Some examples of where measurement uncertainty exists are the accrual of retirement benefits, the amortization of foreign exchange gains or losses, the allowance for guaranteed debt and the accrual of self-insured workers' compensation benefits.

**14. Borrowing Contributions (Requirements)**

The following summary compares the actual amounts for the year ended 31 March 2007 with amounts included in Statement III (Summary of Borrowing Requirements) of the Estimates approved by the Legislature. Please refer to the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for the year ended 31 March 2007 for further information on the calculation of the Total Borrowing Requirements - CRF of \$445.5 million noted below.

	Actual	Estimates	Increase (Decrease)
	(\$000)	(\$000)	(\$000)
Total Borrowing Contribution (Requirements) - CRF . . . . .	(445,516)	(1,160,672)	(715,156)
Total Borrowing Contribution (Requirements) - Other Entities . . . . .	57,568	-	(57,568)
Total Borrowing Contribution (Requirements) - CRF and Other Entities . . . . .	<u>(387,948)</u>	<u>(1,160,672)</u>	<u>(772,724)</u>

**15. Subsequent Events****(a) Hebron-Ben Nevis Oil Field Agreement**

Subsequent to 31 March 2007, the Province signed a Memorandum of Understanding (MOU) with industry partners to develop the Hebron-Ben Nevis oil field. The Province will take a 4.9% equity stake in the project which is projected to result in a significant amount of revenues to be accrued over the 25 year life of the project. Due to the nature of the agreement, a reasonable estimate of the financial impact on the financial statements cannot be determined.

**(b) Foreign Exchange**

Subsequent to 31 March 2007, a significant, favourable change in the US dollar exchange rate occurred. As at 25 October 2007 (date of substantial completion of Consolidated Revenue Fund Financial Statements), the foreign exchange rate for one US dollar was \$0.9674, an increase of \$0.1872 over the \$1.1546 rate at year end. If as at 31 March 2007, the foreign exchange rate had been \$0.9674, there would have been an increase in foreign exchange gains of \$160.8 million.

SUMMARY FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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**16. Original Estimates**

Certain amounts in the 2006-07 Estimates shown for comparative purposes were prepared on the accrual basis.

In addition, amounts for Net Debt (Consolidated Statement of Change in Net Debt) as per the 2006-07 Estimates have also been presented for comparative purposes.

**17. Additional Notes**

In addition to the aforementioned, there are various other notes disclosed in the schedules which follow.

**18. Comparatives**

Certain of the 31 March 2006 financial statement figures and related schedules have been restated to be consistent with the 31 March 2007 statement presentation.

## SUMMARY FINANCIAL STATEMENTS

*Schedule 1***PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Receivables**  
**As at 31 March 2007**  
**with comparative figures for 2006**

	2007	2006
	(\$000)	(\$000)
Accounts receivable .....	395,143	320,954
Taxes receivable .....	191,946	138,785
Due from Government of Canada .....	69,168	49,818
	656,257	509,557
Less: Allowance for doubtful accounts .....	91,159	93,519
	<u>565,098</u>	<u>416,038</u>

# **PROVINCE OF NEWFOUNDLAND AND LABRADOR**

## **Loans, Advances and Investments**

**As at 31 March 2007**

**with comparative figures for 2006**

	2007	2006
	(\$000)	(\$000)
<b>Loans and Advances</b>		
Student loans .....	237,087	231,475
Municipalities .....	185,702	216,907
Commercial .....	59,188	61,502
Housing .....	7,954	8,972
Other .....	3,326	8,828
Total Loans and Advances .....	493,257	527,684
Less: Provision for loan repayments through future appropriations (municipalities) .....	178,482	208,236
Allowance for doubtful loans and advances .....	107,280	99,847
Provision for student loan debt reduction grants .....	18,219	17,747
	189,276	201,854
<b>Investments</b>		
Water rights held in Labrador - note 1 .....	30,000	30,000
Memorial University of Newfoundland - Fixed Income .....	28,577	22,405
Government of Canada Coupon investments .....	4,138	6,547
	62,715	58,952
<b>Equity Investments:</b>		
Administered by Memorial University of Newfoundland .....	27,327	25,294
Administered by Business Investment Corporation .....	20,160	20,764
CHC Composites Inc. ....	5,750	5,750
Country Ribbon Inc. ....	4,500	4,500
Icewater Seafoods Inc. ....	3,500	3,500
ACF Equity Atlantic Inc. ....	2,231	2,231
Orphan Industries Limited. ....	970	-
Blue Line Innovations Inc. ....	500	500
Consilient Technologies Corporation .....	500	500
SAC Mfg. Inc. ....	500	-
Griffiths Guitars International Limited .....	450	450
Hurley Slate Works Company Inc. ....	400	400
Atlantic Ocean Farms Limited .....	290	290
Other .....	3,266	2,769
Total Investments .....	133,059	125,900
Less: Allowance for write-down of investments .....	28,382	26,438
	104,677	99,462
	293,953	301,316

See accompanying notes.



SUMMARY FINANCIAL STATEMENTS

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**NOTES TO THE SCHEDULE OF LOANS, ADVANCES AND INVESTMENTS**  
**As at 31 March 2007**

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**1. Water Rights Held in Labrador**

Pursuant to an agreement dated 24 November 1978, the Lower Churchill Development Corporation Limited (LCDC) has the option of purchasing Newfoundland and Labrador Industrial Development Corporation's water rights to the Lower Churchill River in consideration for the issuance of 3,000 Class B common shares without nominal or par value. These shares will then be transferred to Newfoundland and Labrador Hydro. This option was to expire 24 November 2006 but has been extended to 24 November 2007. LCDC was incorporated under the *Corporations Act* and is owned 51% by Newfoundland and Labrador Hydro and 49% by the Government of Canada. LCDC was established with the objective of developing all or part of the hydro-electric potential of the Lower Churchill Basin.

**2. Interest Rates**

Interest rates for all loans range from non-interest bearing to 12.75% and are repayable over terms not exceeding 23 years.

## SUMMARY FINANCIAL STATEMENTS

Schedule 3

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Equity in Government Business Enterprises**  
**As at 31 March 2007**  
**with comparative figures for 2006**

	NL Liquor Corporation 31 Mar 2007	NL Hydro 31 Dec 2006	Total 2007	Total 2006
	(\$000)	(\$000)	(\$000)	(\$000)
Equity - beginning of year .....	48,900	507,000	555,900	532,668
Net income for year .....	111,150	70,000	181,150	178,032
Capital transactions:				
Transfers to government .....	(102,000)	(2,600)	(104,600)	(154,800)
Equity - end of year .....	<u>58,050</u>	<u>574,400</u>	<u>632,450</u>	<u>555,900</u>
Equity represented by:				
Assets				
Cash and temporary investments .....	28,390	10,000	38,390	26,136
Receivables .....	7,886	155,800	163,686	184,965
Inventories .....	26,279	54,400	80,679	83,764
Prepaid and deferred charges .....	1,724	90,100	91,824	88,114
Investments .....	-	16,900	16,900	11,300
Capital assets .....	<u>17,039</u>	<u>1,791,500</u>	<u>1,808,539</u>	<u>1,794,265</u>
Total Assets .....	<u>81,318</u>	<u>2,118,700</u>	<u>2,200,018</u>	<u>2,188,544</u>
Liabilities				
Accounts payable and accruals .....	23,268	172,900	196,168	161,744
Borrowings .....	<u>-</u>	<u>1,368,900</u>	<u>1,368,900</u>	<u>1,468,400</u>
Total Liabilities .....	<u>23,268</u>	<u>1,541,800</u>	<u>1,565,068</u>	<u>1,630,144</u>
Non-controlling interest .....	<u>-</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>
Equity .....	<u>58,050</u>	<u>574,400</u>	<u>632,450</u>	<u>555,900</u>

Schedule 4

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Net Income of Government Business Enterprises**  
**For the year ended 31 March 2007**  
**with comparative figures for 2006**

	NL Liquor Corporation 31 Mar 2007	NL Hydro 31 Dec 2006	Total 2007	Total 2006
	(\$000)	(\$000)	(\$000)	(\$000)
Revenue				
Revenue from operations .....	208,556	548,000	756,556	731,328
Expense				
Expenses from operations .....	97,406	464,000	561,406	538,896
Transfers to government .....	-	14,000	14,000	14,400
Total Expense	97,406	478,000	575,406	553,296
Net income .....	111,150	70,000	181,150	178,032

# **PROVINCE OF NEWFOUNDLAND AND LABRADOR**

## **Payables, Accrued and Other Liabilities As at 31 March 2007 with comparative figures for 2006**

	2007	2006
	(\$000)	(\$000)
Accrued salaries and employee benefits - note 1	603,534	563,710
Due to Government of Canada	555,653	594,093
Accounts payable	368,254	339,315
Accrued interest payable	185,125	181,007
Due to municipalities	138,440	130,287
Capital leases - note 2	40,125	37,131
Other	15,455	20,492
Environmental liabilities	7,326	10,715
Provision for guaranteed debt	-	18
	<u>1,913,912</u>	<u>1,876,768</u>

### **NOTES**

#### **1. Self-Insured Workers' Compensation Benefits**

Accrued salaries and employee benefits include an amount of \$29.2 million related to the self-insured workers' compensation benefits liability as at 31 March 2007 (31 March 2006 - \$28.8 million). During the 2004-05 fiscal year, an actuarial valuation as of 31 December 2004, with disclosures as at 31 March 2007, was obtained for the Province's self-insured workers' compensation benefits.

#### **2. Capital Leases**

Interest rates for all capital leases range from non-interest bearing to 24.03% and have repayment schedules ranging in duration from less than a year to 17 years.

# **PROVINCE OF NEWFOUNDLAND AND LABRADOR**

## **Borrowings As at 31 March 2007 with comparative figures for 2006**

	2007				2006
	Total Borrowings	Sinking Fund Balance	Net Borrowings	Interest Rate Range	Net Borrowings
	(\$000)	(\$000)	(\$000)	(%)	(\$000)
Consolidated Revenue Fund					
Treasury bill borrowings .....	488,881	-	488,881	4.18 - 4.22	489,539
General debentures .....	5,923,168	946,411	4,976,757	4.50 - 11.63	4,740,046
Government of Canada .....	547,348	-	547,348	4.91 - 11.33	607,016
	<u>6,959,397</u>	<u>946,411</u>	<u>6,012,986</u>		<u>5,836,601</u>
Student Loan Corporation of Newfoundland and Labrador .....	198,012	-	198,012	4.04 - 4.32	206,016
Newfoundland and Labrador Municipal Financing Corporation .....	208,784	11,030	197,754	3.50 - 10.88	233,780
Health care organizations .....	189,840	5,597	184,243	3.71 - 10.50	190,487
Newfoundland and Labrador Housing Corporation					
General debentures .....	26,570	-	26,570	4.12	27,563
Other .....	2,993	-	2,993	4.35	8,992
	<u>29,563</u>	<u>-</u>	<u>29,563</u>		<u>36,555</u>
Other Debt .....	23,969	-	23,969	prime-1 - 8.50	25,527
Total	<u>7,609,565</u>	<u>963,038</u>	<u>6,646,527</u>		<u>6,528,966</u>

See accompanying notes.

## SUMMARY FINANCIAL STATEMENTS

**NOTES TO THE SCHEDULE OF BORROWINGS**  
**As at 31 March 2007**

**1. Borrowings**

Borrowings and unamortized foreign exchange losses, by major currency, and sinking funds as at 31 March 2007 are as follows:

Major Currencies	Foreign Borrowings	Exchange Rate	Canadian \$	Unamortized Foreign Exchange Gains/(Losses)	Net
			(000's)	(000's)	(000's)
U.S.	1,150,000	1.1546	1,327,790	152,395	1,480,185
Canadian			6,281,775	-	6,281,775
	Sub-total		7,609,565	152,395	7,761,960
	Less: Foreign sinking funds		336,325	24,931	361,256
	Less: Canadian sinking funds		626,713	-	626,713
	Total		6,646,527	127,464	6,773,991

**2. Contributions and Repayment Requirements**

Sinking fund contributions and debt repayments which are not funded by a sinking fund, by major currency, in Canadian dollars are as follows:

	U.S.	Canadian	Total
	(000's)	(000's)	(000's)
2007-2008	8,430	286,271	294,701
2008-2009	8,430	421,510	429,940
2009-2010	8,430	367,404	375,834
2010-2011	8,430	339,170	347,600
2011-2012	8,430	534,324	542,754
2012-2043	65,700	1,768,289	1,833,989
	107,850	3,716,968	3,824,818

**3. Foreign Exchange Gain**

The foreign exchange gain which has been recognized on the Consolidated Statement of Operations is \$10.9 million (31 March 2006 - \$8.4 million).

**4. Sensitivity Analysis**

An increase/decrease of one cent in the foreign exchange rates at 31 March 2007 would result in an increase/decrease in foreign borrowings of \$11.5 million (31 March 2006 - \$11.5 million).

**5. Related Sinking Fund Investments**

At year end, the Province held \$721.1 million worth of its own debentures (face value) in sinking funds as active investments (31 March 2006 - \$700.2 million) which are reflected in the sinking fund balances disclosed in note 1 above. These were comprised of \$565.6 million in Canadian investments and \$155.5 million in US investments.

## SUMMARY FINANCIAL STATEMENTS

NOTES TO THE SCHEDULE OF BORROWINGS  
As at 31 March 2007**6. Debt Related Risk**

The practice of borrowing in both domestic and foreign currencies may potentially give rise to a number of risks including interest rate, credit, foreign exchange and liquidity risk. Interest rate risk is the risk that debt servicing costs will increase due to changes in interest rates while credit risk is the risk that a loss may occur from the failure of another party to meet its obligations under a derivative financial instrument contract. As well, foreign exchange risk is the risk that debt servicing costs will increase due to a decline in the value of the Canadian dollar relative to other currencies while liquidity risk is the risk that financial commitments will not be met over the short-term.

The Province attempts to manage its exposure to these risks and minimize volatility in its debt expenses by following a conservative debt and risk management strategy. The Province's debt portfolio is structured such that virtually all of its debt is long-term with fixed interest rates and fixed repayment terms. When appropriate and the option is available, debt with high interest rates has been called and refinanced with new lower interest rate debt. Otherwise, debt is generally held until maturity. Further, as at 31 March 2007, the Province had not entered into risk management techniques such as derivatives or other financial instruments. Hence, the Province's exposure to interest rate and credit risk is minimal as a result of its conservative debt management strategy.

While the majority of the Province's debt is domestic in nature, there are a number of US dollar denominated debt issues. All of these are long-term issues and the Province has established sinking funds, also in US dollars, to provide repayment of the debt at maturity. For debt servicing purposes, short-term forward contracts are occasionally entered into when favorable exchange rates are available to minimize exposure to foreign exchange risk.

The Province's exposure to liquidity risk is managed by distributing debt maturities over several years, maintaining sinking funds for the repayment of certain long-term debt issues and holding adequate cash reserves or short-term borrowings as contingent sources of liquidity.

Newfoundland and Labrador Hydro operates in an environment with various forms of financial risk including changes in interest rates, and fluctuation in foreign currency exchange rates and commodity prices. Newfoundland and Labrador Hydro utilizes a combination of financial instruments and portfolio management to manage these risks. Net borrowings of Newfoundland and Labrador Hydro is reflected in the Equity in government business enterprises on the Consolidated Statement of Financial Position.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Guaranteed Debt As at 31 March 2007 with comparative figures for 2006

	2007	2006
	(\$000)	(\$000)
Guaranteed Debentures		
Newfoundland and Labrador Hydro .....	1,291,392	1,439,182
Municipalities .....	486	542
	<u>1,291,878</u>	<u>1,439,724</u>
Guaranteed Bank Loans		
Fisheries .....	32,606	30,669
Other corporations .....	8,903	8,068
Mortgages .....	2,768	2,952
	<u>44,277</u>	<u>41,689</u>
	<u>1,336,155</u>	<u>1,481,413</u>

#### NOTES

#### 1. Limit of Loan Guarantees

The limit of loan guarantees for Guaranteed Debentures is \$1,291.9 million and \$48.6 million for Guaranteed Bank Loans.

#### 2. Provision for Guaranteed Debt

The provision for probable losses on guaranteed debt is nil (31 March 2006 - \$0.02 million).



## SUMMARY FINANCIAL STATEMENTS

Schedule 8

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Trust Accounts**  
**As at 31 March 2007**  
**with comparative figures for 2006**

	2007	2006
	(\$000)	(\$000)
Registrar of the Supreme Court .....	28,908	28,581
Teachers' Accrued Salary Trust Account .....	6,593	6,178
Patients' Funds Held in Trust .....	4,873	4,347
Consolidated Tender Account .....	4,032	3,088
Provincial Courts Trust Account .....	1,128	974
Federal/Provincial Contractors' Security Account .....	764	406
Other Trust Accounts .....	2,094	2,115
	<u>48,392</u>	<u>45,689</u>

**NOTE****Workplace, Health, Safety and Compensation Commission**

The Workplace, Health, Safety and Compensation Commission (the Commission) is considered to be a form of trust. For the most recent fiscal year ended 31 December 2006, the Commission reported a net fund deficiency of \$8.3 million (31 December 2005 - net fund deficiency of \$53.6 million) and an accumulated operating deficit of \$131.4 million (31 December 2005 - \$139.2 million). During the year, the Commission changed its presentation for 2006 to combine what was previously referred to as the unfunded liability (now "the accumulated operating deficit") with unrealized investment gains and reserves. The combined number is now the net fund deficiency. Under legislation, no liability on behalf of the Province has been established.

# **PROVINCE OF NEWFOUNDLAND AND LABRADOR**

## **Tangible Capital Assets As at 31 March 2007 with comparative figures for 2006**

Category	Original Cost			Accumulated Amortization				Net Book Value 31 March 2007	Net Book Value 31 March 2006
	Balance 31 March 2006	Additions 2007	Disposals 2007	Balance 31 March 2007	Balance 31 March 2006	Amort. Net of Disposals 2007	Balance 31 March 2007		
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Buildings	2,378.7	41.6	11.1	2,409.2	1,095.0	54.3	1,149.3	1,259.9	1,283.7
Marine vessels & aircraft	91.9	-	-	91.9	67.3	3.9	71.2	20.7	24.6
Equipment & machinery	890.2	75.4	16.3	949.3	648.5	40.3	688.8	260.5	241.7
Infrastructure	3,885.9	39.0	39.8	3,885.1	3,248.9	53.8	3,302.7	582.4	637.0
Computer software	53.7	15.3	0.1	68.9	36.3	4.8	41.1	27.8	17.4
Sub-total	7,300.4	171.3	67.3	7,404.4	5,096.0	157.1	5,253.1	2,151.3	2,204.4
Work in progress				92.7				92.7	24.1
Total				7,497.1				2,244.0	2,228.5

### **NOTES**

#### **1. Tangible Capital Assets**

Tangible capital assets are capitalized on the Consolidated Statement of Financial Position with the cost of the assets amortized over the estimated useful life of the assets.

#### **2. Work In Progress**

Work in progress is considered to be a tangible capital asset, however it is not amortized as it is not yet available for use. Government currently has a number of projects under construction or development with a total for 31 March 2007 of \$92.7 million (31 March 2006 - \$24.1 million) having been spent on these projects to date. Upon completion, these assets are recorded in the appropriate category in the schedule. The additions of \$171.3 million include \$19.8 million of work in progress assets that have been capitalized in the year. Additions to work in progress assets amount to \$88.4 million for 2006-07, of which \$38.1 million represented a reclassification related to the Trans Labrador Highway.

#### **3. Amortization Expense**

Amortization net of disposals in the amount of \$157.1 million as reported in the schedule consists of amortization expense of \$181.7 million less accumulated amortization on assets disposed of in the year in the amount of \$24.3 million. The balance of \$0.3 million is the result of adjustments by certain entities.

Amortization net of disposals as at 31 March 2006 was \$371.8 million which consisted of amortization expense of \$174.4 million less accumulated amortization on assets disposed of in the year in the amount of \$9.4 million. The remaining \$206.8 million is the result of adjustments by certain entities and the inclusion of additional entities in the Government reporting entity.

## SUMMARY FINANCIAL STATEMENTS

## TANGIBLE CAPITAL ASSETS (continued)

**4. Estimated Useful Life**

The historic cost of the assets is estimated in many cases, and amortization is calculated on a straight line basis over the following useful lives:

Asset	Estimated Useful Life
Buildings	40 years
Marine vessels & aircraft	
Marine vessels	20 years
Aircraft	20 years
Equipment & machinery	
Heavy machinery and equipment	20 years
Snow removal equipment	10 years
Office/other machinery and equipment	10 years
Vehicles	5 years
Computer hardware	4 years
Infrastructure	
Roads	20 years
Airstrips	20 years
Marine facility infrastructure	20 years
Other infrastructure assets	20 years
Land	indefinite
Bridges	40 years
Computer software	7 years

The above useful lives reflect the policies of the Consolidated Revenue Fund. Amortization reported by other organizations included in the Government reporting entity is recorded in these statements as per the amortization policies of these other organizations. These policies may differ from those identified above.

**5. Historical or Cultural Assets**

In accordance with current accounting standards, certain assets which have historical or cultural value belonging to the Province are not included in this schedule. Such assets consist of paintings, sculptures, historical documents, and historical and cultural artifacts.

**6. Intangible and Inherited Assets**

Intangible assets and items inherited by right of the Crown, such as Crown lands, forest, and mineral resources, are not recognized as tangible capital assets in accordance with current accounting standards.

**7. Leased Assets**

The gross amount of leased tangible capital assets is \$65.0 million (31 March 2006 - \$76.0 million), amortization expense is \$2.5 million (31 March 2006 - \$3.4 million) and accumulated depreciation is \$37.6 million (31 March 2006 - \$43.3 million). These are included in the appropriate category in the schedule.

# **PROVINCE OF NEWFOUNDLAND AND LABRADOR**

## **Revenue by Source For the year ended 31 March 2007 with comparative figures for 2006**

	Actuals 2007 (\$000)	Actuals 2006 (\$000)
<b>Federal Sources</b>		
Equalization .....	686,603	860,959
Health and social transfers .....	492,985	491,568
Atlantic Accord (2005) .....	219,218	322,300
Cost-shared programs .....	168,800	145,831
Atlantic Accord (1985) .....	109,784	-
Other .....	65,199	59,344
<b>Total Federal Sources</b> .....	<b>1,742,589</b>	<b>1,880,002</b>
<b>Provincial Sources</b>		
<b>Taxation</b>		
Personal income tax .....	885,718	811,189
Sales tax .....	685,869	629,872
Corporate income tax .....	341,896	295,962
Other .....	331,190	239,939
Gasoline tax .....	144,639	141,226
	<b>2,389,312</b>	<b>2,118,188</b>
<b>Investment</b>		
Other .....	140,189	134,969
Interest .....	62,369	101,220
Sinking fund earnings .....	58,590	53,671
	<b>261,148</b>	<b>289,860</b>
<b>Fees and Fines</b>		
Fees .....	211,918	221,456
Fines .....	12,424	9,723
	<b>224,342</b>	<b>231,179</b>
<b>Offshore royalties</b> .....	<b>423,041</b>	<b>532,533</b>
<b>Other</b> .....	<b>299,584</b>	<b>325,794</b>
<b>Total Provincial Sources</b> .....	<b>3,597,427</b>	<b>3,497,554</b>
<b>Net income of government business enterprises - see note</b> .....	<b>181,150</b>	<b>178,032</b>
	<b>5,521,166</b>	<b>5,555,588</b>

### NOTE

See Schedule 4 for a breakdown by entity.

## SUMMARY FINANCIAL STATEMENTS

Schedule 11

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Expenses by Department**  
**For the year ended 31 March 2007**  
**with comparative figures for 2006**

	Actuals 2007 (\$000)	Actuals 2006 (\$000)
General Government Sector		
Consolidated Fund Services .....	829,136	987,665
Executive Council .....	67,071	55,394
Finance .....	87,795	85,844
Government Services .....	29,681	29,650
Labrador and Aboriginal Affairs .....	3,091	6,900
Legislature .....	16,819	15,859
Public Service Commission .....	2,007	2,724
Transportation and Works .....	340,586	310,807
	<u>1,376,186</u>	<u>1,494,843</u>
Resource Sector		
Business .....	2,956	690
Environment and Conservation .....	43,653	41,789
Fisheries and Aquaculture .....	10,519	10,052
Innovation, Trade and Rural Development .....	25,150	21,419
Natural Resources .....	75,294	72,269
Tourism, Culture and Recreation .....	55,154	38,327
	<u>212,726</u>	<u>184,546</u>
Social Sector		
Education .....	1,106,596	1,156,477
Health and Community Services .....	1,990,479	1,867,320
Human Resources, Labour and Employment .....	372,077	362,702
Justice .....	161,113	154,903
Municipal Affairs .....	147,904	135,515
	<u>3,778,169</u>	<u>3,676,917</u>
	<u>5,367,081</u>	<u>5,356,306</u>

**NOTE**

Expenses by Department include expenses by organizations in the Government reporting entity which report to that department.

# **PROVINCE OF NEWFOUNDLAND AND LABRADOR**

## **Expenses by Object For the year ended 31 March 2007 with comparative figures for 2006**

	Actuals 2007 (\$000)	Actuals 2006 (\$000)
Salaries and employee benefits .....	2,306,989	2,183,145
Operating costs .....	922,245	854,296
Grants and subsidies .....	792,874	817,159
Debt expenses .....	776,894	946,959
Professional services .....	324,992	301,105
Amortization and loss on sale re: tangible capital assets .....	182,672	175,601
Property, furnishings and equipment - see note .....	47,440	62,877
Valuation allowances .....	12,975	15,164
	<u>5,367,081</u>	<u>5,356,306</u>

### **NOTE**

This amount includes expenses for property, furnishings and equipment that do not meet the established definition of, or thresholds for, tangible capital assets.

## SUMMARY FINANCIAL STATEMENTS

Schedule 13

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Reconciliation of Budgetary Contribution (Requirement) to Consolidated Accrual Results**  
**For the year ended 31 March 2007**  
**with comparative figures for 2006**

	Actuals 2007	Actuals 2006
	(\$000)	(\$000)
Budgetary Contribution (Requirement) .....	140,929	524,286
Surplus (Deficit) - Actuals (consolidated accrual) .....	154,085	199,282
Difference - note 1 .....	<u>(13,156)</u>	<u>325,004</u>
The difference is comprised of the following:		
Consolidated Revenue Fund - note 2:		
Sinking fund earnings .....	(57,948)	(53,066)
Accrued retirement costs - interest .....	238,946	398,777
Accrued retirement costs - other .....	60,805	22,078
Amortization of foreign exchange gains/losses .....	(12,060)	(8,525)
Other debt expenses .....	2,201	(7,594)
Bad debt expenses .....	11,955	3,868
Amortization expense related to tangible capital assets .....	87,384	87,794
Tangible capital asset acquisitions/adjustments - net .....	(105,232)	(81,439)
Inventories of supplies .....	(576)	(2,168)
Accrued revenues and expenses .....	<u>(129,230)</u>	<u>(123,328)</u>
	96,245	236,397
Other entities - note 3:		
General Government Sector .....	(58,135)	32,390
Resource Sector .....	(1,621)	34,743
Social Sector .....	<u>(49,645)</u>	<u>21,474</u>
	(109,401)	88,607
Difference .....	<u>(13,156)</u>	<u>325,004</u>

See accompanying notes.

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**NOTES TO THE RECONCILIATION OF BUDGETARY CONTRIBUTION (REQUIREMENT)  
TO CONSOLIDATED ACCRUAL RESULTS  
For the year ended 31 March 2007**

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**1. Reconciliation of Budgetary Contribution (Requirement) to Consolidated Accrual Results**

This schedule reconciles the budgetary contribution (requirement) of the Consolidated Revenue Fund as per the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund to the accrual surplus (deficit) on a consolidated basis. The change shown consists of year end accrual adjustments for the Consolidated Revenue Fund and accounting policy adjustments to the annual results of government organizations. The original budgeted consolidated accrual surplus for the period as per the Estimates was \$6.2 million.

**2. Consolidated Revenue Fund**

The Consolidated Revenue Fund accrual surplus for 31 March 2007 was \$44.7 million as per Volume II of the Public Accounts. The original budgeted Consolidated Revenue Fund accrual deficit for the Province of \$52.5 million was not disclosed in the 2006-07 Estimates but was obtained from internal documentation.

Sinking fund earnings represent the interest earned on the sinking funds during the year less the sinking fund income returned to the Province from the sinking funds retired.

Accrued retirement costs (interest) represent the net interest expense on the unfunded pension liability and the group health and life insurance retirement benefits.

Accrued retirement costs (other) represent primarily the employer contributions that exceeded the current service costs for pensions as well as group health and life insurance retirement benefits.

Amortization of foreign exchange gains/losses represent the amortization of the unrealized foreign exchange gains/losses.

Other debt expenses represent primarily the change in the accrued interest expense on the debt and capital leases.

Bad debt expenses represent the net increase in the allowance for doubtful accounts receivable, loans, investments, and guarantees made by the Province.

Accrued revenues and expenses represent all other changes in revenues and expenses during the year (e.g. equalization, sales tax, salaries and benefits).

**3. Other Entities**

This represents the accrual surplus (deficit) of all other government organizations after adjustments have been made to conform to the accounting policies of the Province. The General Government Sector adjustment includes the above and reverses the cash received by the Province for Newfoundland and Labrador Hydro and Newfoundland and Labrador Liquor Corporation and records the net income of these entities.



# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Government Reporting Entity For the year ended 31 March 2007

### GOVERNMENT ORGANIZATIONS

	Board of Commissioners of Public Utilities
	Bull Arm Site Corporation
	Business Investment Corporation
	C.A. Pippy Park Commission
	College of the North Atlantic
J	Conseil Scolaire Francophone Provincial de Terre-Neuve et du Labrador
	Consolidated Revenue Fund
D	Credit Union Deposit Guarantee Corporation
	Central Regional Integrated Health Authority
note 1	Eastern Regional Integrated Health Authority
J	Eastern School District
D	Embalmers and Funeral Directors Board of Newfoundland and Labrador
	Heritage Foundation of Newfoundland and Labrador
note 2	Labrador-Grenfell Regional Integrated Health Authority
J	Labrador School Board
	Labrador Transportation Initiative Fund
	Livestock Owners Compensation Board
A - note 3	Marble Mountain Development Corporation
	Memorial University of Newfoundland
	Multi-Materials Stewardship Board
	Municipal Assessment Agency Inc.
	Newfoundland and Labrador Arts Council
	Newfoundland and Labrador Centre for Health Information
	Newfoundland and Labrador Crop Insurance Agency
N	Newfoundland and Labrador Farm Products Corporation
	Newfoundland and Labrador Film Development Corporation
	Newfoundland and Labrador Housing Corporation
	Newfoundland and Labrador Immigrant Investor Fund Limited
	Newfoundland and Labrador Industrial Development Corporation
	Newfoundland and Labrador Legal Aid Commission
	Newfoundland and Labrador Municipal Financing Corporation
	Newfoundland and Labrador Student Investment and Opportunity Corporation
	Newfoundland Hardwoods Limited
	Newfoundland Ocean Enterprises Limited
J	Nova Central School District
	Provincial Advisory Council on the Status of Women
	Provincial Information and Library Resources Board
D	Public Accountants Licensing Board
	Public Health Laboratory
	Special Celebrations Corporation of Newfoundland and Labrador, Inc.
	Student Loan Corporation of Newfoundland and Labrador
	The Rooms Corporation of Newfoundland and Labrador

## SUMMARY FINANCIAL STATEMENTS

GOVERNMENT ORGANIZATIONS

	Western Regional Integrated Health Authority
J	Western School District

GOVERNMENT BUSINESS ENTERPRISES

D	Newfoundland and Labrador Hydro
	Newfoundland and Labrador Liquor Corporation

LEGEND

A	This entity has a year end of 30 April.
D	These entities have a year end of 31 December.
J	These entities have a year end of 30 June.
N	This entity had a shortened year end of 2 November 2006.

NOTES

- 1 Eastern Regional Integrated Health Authority controls a number of foundations/associations which have not been consolidated within their financial statements. In accordance with Public Sector Generally Accepted Accounting Principles, these organizations have been included within the Province's 2006-07 Consolidated Summary Financial Statements. These entities are as follows: 1) General Hospital Hostel Association; 2) Health Care Foundation of St. John's Incorporated; 3) Janeway Children's Hospital Foundation; 4) Northwest Rotary - Janeway Hostel Corporation; 5) Waterford Foundation Incorporated; 6) Dr. H. Bliss Murphy Cancer Care Foundation; 7) Discovery Health Care Foundation Inc.; 8) Trinity-Conception-Placentia Health Foundation Inc.; 9) The Burin Peninsula Health Care Foundation Inc.; 10) Blue Crest Cottages; 11) Golden Heights Manor Cottages; 12) Lions Manor Inc.; and 13) TCRB Housing Complex Inc. Also controlled and consolidated within Eastern Regional Integrated Health Authority is the Breast Screening Program for Newfoundland and Labrador.
- 2 Included in the 2006-07 Consolidated Summary Financial Statements are the statements of the following foundations/associations which are controlled by and consolidated within, the Labrador-Grenfell Regional Integrated Health Authority: 1) Grenfell Foundation Incorporated; 2) St. Anthony Interfaith Home 12 Unit Apartment Complex; and 3) St. Anthony Interfaith Home 20 Unit Apartment Complex.
- 3 Due to amalgamation, the 2006-07 consolidated financial statements of Marble Mountain Development Corporation include Marble Mountain Management Corporation.